



INTERNAL AUDIT ACTIVITY PROGRESS REPORT QUARTER 1 2022/23

1. Introduction

- 1.1. The Internal Audit Activity carries out the work required to satisfy the legislative requirement and reports its findings and conclusions to management and to this Committee.

2. Responsibilities

- 2.1. Management is responsible for establishing and maintaining appropriate risk management processes, control systems (financial and non-financial) and governance arrangements.
- 2.2. Internal Audit plays a key role in providing independent assurance and advising the organisation that these arrangements are in place and operating effectively.
- 2.3. Internal Audit is not the only source of assurance for the Council. There is external audit and management processes which also provide assurance.

3. Purpose of this Report

- 3.1. To provide progress report on Internal Audit Activity to those charged with governance. This report summarises:
 - The progress against the 2022/23 Internal Audit Plan, including the assurance opinions on the effectiveness of risk management and control processes, and
 - The outcomes of the internal audit activity during the period April to June 2022.

4. Progress against the 2022/23 Audit Plan

- 4.1. The Internal Audit Activity achieved 100% against quarterly planned targets.
- 4.2. The schedule provided at **Appendix 1** provides the summary of quarter 1, 2022/23 audits with assurance opinions on controls.
- 4.3. The **Table 1** provided below contains a list of all the audit activity undertaken during the 1st quarter of the 2022/23 financial year which includes, where relevant, the assurance opinions on the effectiveness of control processes in place. Explanations of the meaning of the audit opinions are shown under **Annexure 1**.

Table 1

Audit Engagement	Type	Auditee	Level of Assurance
Leave Management	Operational	Human Resources	Limited (negative outcome)
Training and Development Management	Operational	Human Resources	Significant (positive outcome)
Review of the 2021/22 Annual Report	Mandatory	ALL	Not applicable

Audit Engagement	Type	Auditee	Level of Assurance
(Performance Information and Financial Statements)			
Quarterly Report (Performance Information and Financial Statements)	Mandatory	ALL	Not applicable
Quarterly Compliance Checklist	Mandatory	ALL	Not applicable
Review of Risk Registers (monthly Operational Risk Registers and Quarterly Enterprise Risk Register)	Mandatory	ALL	Not applicable
Follow up of Prior Audit Report	Follow up	ALL	Not applicable
Tender Closing Process for the Insurance Services and Supply of 43 Laptops	Ad-hoc	Supply Chain Management	Not applicable
Tender Compliance Checking Process for the Insurance Services	Ad-hoc	Supply Chain Management	Not applicable
Served on committees and attended meetings (management and governance)	Support to Management	Not applicable	Not applicable

Detailed reports for the above were shared with ARC members via the portal.

5. Audits with Assurance Opinions

5.1. The tables below show the summary of control assurance opinions, rating and classification of findings.

Table 2: Control Classification:

Audited Activity	Level of Assurance	No. of Findings	Significant Matter	Area of Improvement	Housekeeping Matter
Leave Management	Limited (negative opinion)	6	5	1	0
Training and Development Management	Significant (positive opinion)	2	2	0	0

Table 3: Control Rating:

Audited Activity	Level of Assurance	No. of Findings	Ineffective Control	Inadequate Control
Leave Management	Limited (negative opinion)	6	6	0
Training and Development Management	Significant (positive opinion)	2	2	0

Detailed reports for the above were shared with ARC members via the portal.

6. Follow-up of Prior Audit Reports

6.1. The follow up on the implementation of agreed management action plans and audit recommendations from the Prior Internal Audit Reports were performed.

6.2. The progress in implementing agreed corrective action plans is as follows:

- Total audit findings before follow-up = 15 (100%)
- Closed findings after follow-up = 11 (73%)
- Open findings after follow-up = 4 (27%)

Table 4 - the breakdown of the above is as follows:

Audited Area	Opening findings before follow-up	Closed findings after follow-up	Open findings after follow-up
Supply Chain Management	2	1	1
Finance	13	10	3
TOTAL	15	11	4

Detailed report (Progress Report of Prior Audit Findings) was shared with members via the portal.

7. Review of the Quarterly Report

- 7.1. The Auditor has reviewed the Quarterly Report (performance information and financial statements) and the scope of the review was limited to compliance with legislative requirements, usefulness and the reliability of the reported performance information and financial statements reporting is in line with the IFRS for SMEs and the existence of the QFS file.
- 7.2. All review notes issued by Internal Audit were satisfactory cleared by management accordingly.

A detailed report was shared with ARC members via the portal.

8. Compliance Checklist

- 8.1. The following updates were effected on the worksheet checklists:

Table 5

Act Name	Section	Update
Children's Act	126(1)	<p>A total of 18 sexual misconduct cases for inquiry by arbitrator were received.</p> <p>Out of the 18 cases, 3 were out of jurisdiction.</p> <p>Out of 15 cases in jurisdiction, 14 were scheduled within 60 days. 15 awards were issued and 10 of them were submitted to the Social Development Department and SACE this quarter.</p>
COVID-19 Occupational Health and Safety Measures in the Workplace COVID-19 (C19 OHS), 2020		<p>Removed from the checklist due to the National State of Disaster in response to the COVID-19 pandemic being lifted as from the 5th of April 2022.</p> <p>Management is in the process of reviewing and updating the COVID-19 policy to ensure alignment accordingly.</p>
Income Tax	Chapter III, General Provisions ss66	<p>The year-end submission of EMP501 for Tax Year End 2021/22 was done by 31 May 2022.</p> <p>EMP 201 documents available for inspection.</p> <p>All 3 (Apr - Jun 2022) PAYE Return declarations were made and payment made before the end of the quarter.</p>

- 8.2. Compliance with business policies and procedures is monitored through the audit assignments.
- 8.3. Overall, the level of compliance for the quarter ended 30 June 2022 is sitting at:
- Regulatory = 99.38%
 - Policies and procedures = 96.58%

The above is attributed to:

- Policies and procedures - areas of non-compliance reported during our audits and follow-up reviews.

- Regulatory - emanated from issued of non-compliance around the administration of SHE Committee.

Detailed Compliance Checklist was shared with members via the portal.

9. Risk Register Monitoring

- 9.1. The risk register reviews are conducted through meeting discussions with Management Team (risk owners) where risks are reviewed and revised where necessary. These meetings also present an opportunity to identify new risks and archive risks (with a residual score below 3).
- 9.2. The 1st quarter risk registers were submitted on the 30th of June 2022 and discussion meeting was held on the 5th of July 2022.

Key Risk Register

- 9.3. A total of three (3) key risks were identified for the 2022/23 financial year. At the end of the quarter under review, all three (3) risks were reported as still active and existing controls are being effectively monitored.
- 9.4. The residual scores of these risks ranges between the low and medium brackets, that is, one (1) risk obtained a medium score and 2 obtained low scores. The **table 4** below illustrates the residual score for the 1st quarter.

Table 6

Risk No.	Risk Description	Risk Owner	Residual Score	
			Survey	Q1 Update
KR/01	Failure by parties to efficiently conclude on issues of mutual interest	CBS	Medium (8)	Medium (8)
KR/02	Non-implementation of signed Collective Agreements (CAs)	CBS	Low (4)	Low (4)
KR/03	Failure to expedite inquiry by Arbitrator for sexual misconduct cases relating to minors	DMS	Low (4)	Low (4)
Low	Risk management activities have resulted in demonstrated improvement to adequately address or exceed inherent risk exposure			
Medium	Risk management activities have begun to demonstrate improvement in the inherent risk exposure			
High	Risk management activities have not resulted in demonstrated improvement in the inherent risk exposure			

Operational Risk Register

- 9.5. Proposed changes to the operational risk register were effected, namely, two (2) risk were archived, and three (3) risks were added on the register as emerging risks.
- 9.6. Overall, the operational risk register reported a total of 54 active risks, and the summary of the residual risk scores is tabled below.

Table 7 – active risks

Rating	Risk Score (Threshold)	Number of Risks	Percentage
High	12.1 - 25	0	0%
Medium	7.1 - 12	20	37%
Low	1 - 7	34	63%
TOTAL		54	100%

Detailed Risk Register Monitoring Report was shared with members via the portal.

Appendix 1: Summary of Assurance Opinions on Control

Business Unit:	Human Resources
Audited Activity:	Leave Management

The Leave Management activity as operated at the time of the audit provided a **Limited Assurance**, a negative opinion. This is attributed to the substantial number of observations (resolved, negative and value add) resulted from ineffective and inefficiencies of operations and personnel, non-compliance with business policies and procedures, and the questionable integrity of leave reporting information.

- All six (6) audit findings raised are categorized as ineffective controls.
- Five (5) of the audit findings are classified as significant findings and one (1) is classified as areas of improvement. No issues were noted as housekeeping matters
- From the six (6) raised audit finding, four (4) are classified as recurring and two (2) are classified as new.
- Five (5) issues are allocated a high-risk rating and one (1) is allocated medium- risk rating.
- All audit recommendations are of high priority.

The audit revealed significant control deficiencies that requires immediate attention of the Senior Manager and the Manager, Human Resources, to strengthen the supervisory and review controls that are found lagging. Furthermore, the issuing of the communique to staff as a reminder that the responsibility of confirming their leave application status before undertaking leave lies with them, and that after the effect leave (sick and family responsibility) application must be done within two working days upon return to work. Periodic checking if system is functioning to the optimum must also be considered.

As for value-add observations, management is recommended to consider the audit recommendations to strengthen the control environment by addressing practices which may compromise the achievement of the operational objectives.

Significant Findings

1. Declined sick leave transaction not properly handled by HR.
2. After the fact annual leave transactions.
3. Inconsistencies between the Process History Report (Workflow report) and the Sage 300 People Report data.
4. Timeframes for application of leave upon return to work not always adhered to.
5. Errors on the monthly leave reconciliation reports. These mistakes negatively affect the carried over balances from one month (closing balance) to the next month (opening balance).

Business Unit: Human Resources

Audited Activity: Training and Development Management

The training and development as operated at the time of the audit provided a **Significant Assurance**, a positive opinion. Generally, there is sound system of controls in place that ensures employees' training and development activities are effectively and efficiently performed. However, there are some areas of control weaknesses that requires the management's immediate attention, to perform as intended. To enhance the process and ensure compliance.

- Two (2) raised findings are categorized as ineffective controls and classified as significant findings.
- One (1) finding is classified as recurring and the other one (1) identified as a new finding.
- The findings are rated as high and medium risks.
- All audit recommendations are of high priority.

As for value-add observations, management is recommended to consider the audit recommendations to strengthen the control environment by addressing practices which may compromise the achievement of the operational objectives.

Significant Findings

1. Inefficiencies over the development of the Training and Development Plan.
2. Inaccuracies on the existing Training and Development Plan.

Annexure 1: Audit Opinion Categories

The audit opinions are categorized according to our assessment of the controls in place and the level of compliance with these controls based on the following criteria:

	Level	System Adequacy and Control Application
(Positive opinions)	Full assurance	Full assurance that the system of internal control meets the organization's objectives and controls are consistently applied.
	Significant assurance	Significant assurance that there is a generally sound system of control designed to meet the organization's objectives. However, some weaknesses in the design or inconsistent application of controls put the achievement of some objectives at some risk.
(Negative opinions)	Limited assurance	Limited assurance as weaknesses in the design or inconsistent application of controls put the achievement of the organization's objectives at risk in some of the areas reviewed.
	No assurance	No assurance can be given on the system of internal control as weaknesses in the design and/or operation of key control could result or have resulted in failure(s) to achieve the organization's objectives in the area(s) reviewed.

The above is based upon the number and type of control rating and classification we make in each report, categorised in line with the following:

Classification	Description
Significant matter	The finding is a result of non-compliance with laws and regulations, internal policies, and requirements of the reporting framework; a misstatement that will have material impact in the financial statements
Area of improvement matter	The finding is a result of control deficiency or lack of control within the control environment.
Housekeeping matter	The finding has no impact but if not addressed in future might be significant.
Control Rating	Description
Inadequate control	Laid down accounting and internal control procedures were either inadequate or non-existent. This may indicate a residual risk exposure
Ineffective control	Employees were performing their duties ineffectively based on the results of tests performed, on a sample basis, for the period under review. This may indicate a lack of performance to achieve objectives.