



INTERNAL AUDIT PROGRESS REPORT QUARTER 4 2021/22

1. INTRODUCTION

- 1.1. The purpose of this report is to bring the Audit and Risk Committee (ARC) up to date with the progress made against the delivery of the 2021/22 Internal Audit Plan.
- 1.2. The information included in this progress report will feed into and inform the overall opinion in our Internal Audit Annual Report issued at the year end.

2. RECOMMENDATION

- 2.1. The ARC notes the work undertaken by Internal Audit Function (IAF) for the fourth quarter ended 31st of March 2022.

3. PROGRESS AGAINST THE 2021/22 AUDIT PLAN

- 3.1. The annual audit plan is the key driver of the Internal Audit Function's performance. Operationally the plan is prioritised and divided into quarters. The planned work remains within the target at the end of fourth quarter, that is, an achievement of 100% against the planned targets.
- 3.2. Below is a summary of IAF's operations for the quarter ending 31 March 2022. The following highlights provide an overview of IAF' work:

Completed Projects

- Financial Internal Controls – Finance

Internal Audit Planning

- 2022/23 Audit Plan
- 2022/23 Risk Assessment

Follow Ups

- Prior Internal Audit Reports
- Asset Management Follow - SCM

Quarterly Statutory Reviews

- Review of the Quarterly Report
- Review of the Risk Register
- Review of the Compliance Checklist
- Review of the 2022/23 Annual Performance Plan

Other

- Monthly Payroll Review
- Observation of Tender Closing and Compliance Checking Process (Travel Management and Internet Connectivity)

Service Commitments (Support to Management)

- Served on committees and attended meetings (management and governance)

4. COMPLETED PROJECTS (Scheduled Audits)

Table 1

Audit Engagement	Type	Auditee	Level of Assurance	Report Issued Date
Financial Internal Controls	Operational	Finance	Limited (negative outcome)	30 March 2022
Asset Management Follow Up	Operational	SCM	Not applicable	26 January 2022

- 4.1. The audit team performed another asset management follow-up for the above at the end of March 2022 and noted a significant improvement made by management in addressing and clearing most of the reported findings. The outcome from the exercise is that out of the 13 open findings, 10 (77%) were resolved and 3 (23%) are still work in progress.

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

5. FOLLOW-UP OF PRIOR AUDIT REPORTS

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

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

- Total audit findings before follow-up = 23 (100%)
- Closed findings after follow-up = 19 (83%)
- Open findings after follow-up = 4 (17%)

Table 2 - 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	12	8	4
Dispute Management	2	2	0
Information Communication Technology	1	1	0
PELRC Kwa-Zulu Natal	5	5	0
PELRC North-West	1	1	0
PELRC Eastern Cape	1	1	0
PELRC Gauteng	1	1	0
TOTAL	23	19	4

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

6. REVIEW OF THE QUARTERLY REPORT

- 6.1. The Auditor has reviewed the 4th Quarter 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.

- 6.2. All review notes issued by Internal Audit were satisfactory cleared by management accordingly.

Issue of noting:

6.2.1. The year-end asset verification was timely and successfully performed between February and March 2022, however the reconciliation between the outcome and the Evolution system FAR was still in progress when closing off this report. The Auditor will perform a follow-up and report on the outcome when reviewing the annual report.

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

7. REVIEW OF THE 2022/23 ANNUAL PERFORMANCE PLAN

7.1. The Auditor has satisfactory reviewed the 2022/23 Annual Performance Plan and all review notes issued by Internal Audit were satisfactory cleared by management accordingly.

8. COMPLIANCE CHECKLIST

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

Table 3

Act Name	Section	Update
Children's Act	126(1)	A total of 24 sexual misconduct cases for inquiry by arbitrator were received. Out of the 24 cases, 2 were out of jurisdiction and 2 had not set (no date), leaving 20 cases to be scheduled. All 20 cases were scheduled within 60 days. 13 awards were issued and submitted to the Social Development Department this quarter.
Income Tax	Chapter III, General Provisions ss66	EMP 201 documents available for inspection. All 3 (Jan - Mar 2022) PAYE Return declarations were made and payment made before the end of the quarter. The year-end submission of EMP501 for Tax Year End 2021/22 will be done by 31 May 2022.

8.2. Compliance with business policies and procedures is monitored through the audit assignments.

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 4th quarter risk registers review meeting was held on the 5th of April 2022.

Key Risk Register

9.3. The key risk register closed with a total of three (3) active risks as at the 31st of March 2022, with residual scores of LOW, owing to the continuous and effective monitoring of controls put in place.

9.4. Table 4 below illustrates the residual score movement from the 1st to the 4th quarter:

Table 4

Risk No.	Risk Description	Risk Owner	Residual Score				
			Annual Survey	Q1 Update	Q2 Update	Q3 Update	Q4 Update
KR/01	Failure by parties to efficiently conclude on issues of mutual interest	CBS	Medium (8)	Medium (8)	Medium (8)	Medium (8)	Low (4)
KR/02	Non-implementation of signed Collective Agreements (CAs)	CBS	Medium (8)	Medium (8)	Medium (8)	Low (4)	Low (4)
KR/04	High number of referred cases arising from Collective Agreements (CAs)	DMS	Low (4)	Low (4)	Low (4)	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					

- 9.5. Two (2) key risks with residual scores below 3 are reported as archived at the end of the 2021/22 financial year.

Table 5

Risk No.	Risk Description	Risk Owner	Residual Score
KR/03	Going concern	Executive Services	2,5
KR/05	Failure to expedite inquiry by Arbitrator for sexual misconduct cases relating to minors	Dispute Management Services	2

Operational Risk Register

- 9.6. The operational business units/areas risk registers reported a total of 65 active risks.
- 9.7. After taking into consideration the effectiveness of the mitigation plans or controls, the summary of the residual risk scores is as follows:

Table 6 – active risks

Rating	Risk Score (Threshold)	Number of Risks	Percentage
High	12.1 - 25	2	3%
Medium	7.1 - 12	17	26%
Low	1 - 7	46	71%
TOTAL		65	100%

- 9.8. Ten (10) operational risks with residual scores below 3 are reported as archived at the end of the 2021/22 financial year.

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

10. INTERNAL AUDIT PLANNING

- 10.1. The 2022/23 Internal Audit Plan and the Risk Assessment were submitted to the ARC members via email on the 15th of March 2022 for review and approval. These annual documents were approved by the Chairperson on the 25th of March 2022 for implementation on the 1st of April 2022.

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.