



# Municipal Finance in Practice – Rotation Session : Internal Audit & Risk Management

Presenter : Nelisiwe Mlungwana  
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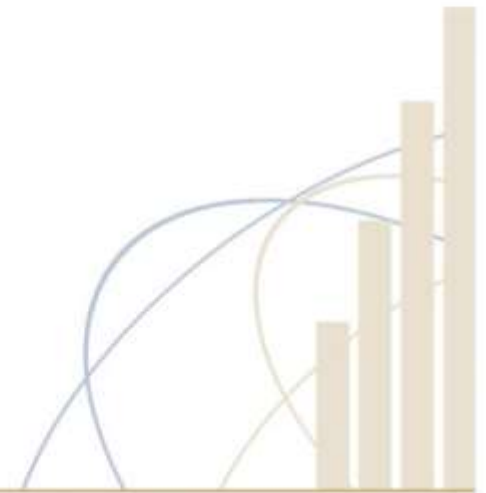
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# Legislative Mandate



- Municipal Finance Management Act no.56 of 2003 (section 165 of the MFMA)
- Municipal Systems Act No. 32 of 2000
- Municipal Planning and Performance Management Regulations
- Circular 65 and 127
- Global IIA Standards
- Internal Audit Charter



# Risk Management

- Risk management is how an organization figures out what could go wrong, how bad it would be, and what to do about it so it doesn't hamper goals of the organization. It is a possibility of an event happening
- Risk management is the process of identifying, analyzing, and responding to risks so you stay on track to meet objectives.
- **Inherent Risk:** the level of risk before you put any controls in place. It's the "raw" risk  
**If we did nothing, how bad would this be?**
- **Residual risk :**the level of risk after you've applied controls.  
**It's what's left over after having your controls. You never get risk to zero, so the goal is to get it to an acceptable level**
- When you see a payment voucher with no invoice, a contract signed after work started, or a file missing, that's a risk that risk needs to be **Flagged**

# Risk Management



## The Risk Assessment Process

The standard process has 5 steps:

### Step 1: Set Objectives

You can't assess risk without knowing what you're trying to achieve)

### Step 2: Identify Risks

What could stop us from achieving that objective?

### Step 3: Analyze & Rate Risks

For each risk, rate inherent likelihood and impact on a scale

### Step 4: Evaluate & Respond

Decide what to do

### Step 5: Monitor & Report

Check if controls are working. Risks change, identify new risks



# Internal Audit



- Internal Audit Activity (IAA) is an independent and objective appraisal service
- The purpose of the Internal Audit activity is to assist the Accounting Officer and Senior Management in achieving their objectives and discharging their responsibilities by providing an independent, objective assurance and consulting service designed to add value and improve the municipality's operations.
- Internal Audit's primary role is to provide an opinion to the Accounting Officer and the Audit and Performance Audit Committee on risk management, control, and governance
- As per circular 65, the new circular 127, New Global IIA Standards Internal Audit reports administratively to the MM and functionally to the Audit and Performance Committee

# Internal Audit



- **The internal audit function is authorized to:**
  - Have unrestricted access to all functions, records, property, and personnel;
  - Have full access to the Municipal Manager;
  - Allocate resources, set frequencies, select subjects, determine the scope of work, and apply the techniques required to accomplish audit objectives; and
  - Obtain the necessary assistance of personnel where Internal Audit will perform reviews, as well as other specialised services from within or outside the municipality
  
- **The internal Audit function is not authorized to:**
  - Perform any operational duties/ line function tasks for the Municipality;
  - Initiate or approve accounting transactions external to the internal audit function;
  - Direct the activities of any organization employee not employed by the Internal Audit function, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors in carrying out investigations

# Internal Audit Cycle



- Internal Audit work is guided by section 165 of the MFMA and circular 65/127

## Audit Performed

### Compliance Audit

- Loss Control
- Dora
- Performance Management(Q1-Q4 and APR)

### Risk Based Audit

- IA follow Up
- AG Action Plan follow ups
- Review of Annual Financial Statements

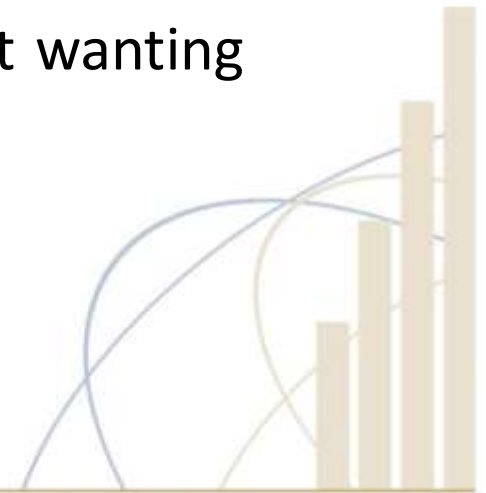


# Audit Process

- Pre engagement activities
- Interviews(systems description, map)
- Testing
- Reporting(Management, Manco and Audit Committee

## Challenges

- Challenges faced by internal auditors often includes independence, access to info, and people not wanting to be audited.



# Audit Process

- **Independence & Objectivity Pressure**

Internal audit must report problems to management and the audit committee. But the same management pays their salary and sets their budget.

Management pushes back or delays the raising of findings: That's not a big deal or We'll fix it

Pressure to soften reports or exclude certain departments.

Fear of retaliation if findings make senior staff look bad.

If the internal audit is not truly independent, they stop finding the real issues.



- **Management Resistance**

The resistance slows down access to staff and info and makes it hard to implement recommendations.

- **Non-Implementation of Recommendations**

Internal Audit can recommend but can't force action. If management ignores findings, the same risks stay open year after year. As a result, repeat findings from AGSA, and IA looks ineffective.



# Role of IA in achieving clean audits



- Strengthen Internal Controls
- Adhere to Accounting Standards- GRAP and IGRAP Standards (Standards that will now affect the Audit opinion)
- Enhance Transparency
- Regular Financial Reporting:
- Maintain proper documentation-financial transactions, including invoices, receipts, and other supporting documents. This helps auditors in their review and ensures transparency and accountability)
- Assist during the AG audit in terms of RFI coordination and submission of information.

# Conclusion



Our role in Internal Audit is not to find fault, but to strengthen the systems and enable improved service delivery. The findings and recommendations that internal audit raises are an opportunity to close gaps.





# Thank You!



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