Position papers do not have any legal status in its own right. Subject matters dealt with in position papers are identified for specific consideration and may be matters controversial in nature. Accounting treatment becomes relevant in order to achieve consistencies in classification throughout the local government sector.

Position papers need to be read together with the Project Summary Document as updated periodically by National Treasury.

Position papers DO NOT replace any National Treasury guidelines, circulars, practice notes or implementation guidelines.

Position papers are prepared by the mSCOA Project Team based on information collected through the mSCOA Project Lifecycle. Consultation with interested parties may be necessary in concluding on subject matters.

Terminology applied in the position paper will be specifically defined for updating the Standard Terminology list as published on the National Treasury web as part of the mSCOA project documents.

Frequently asked questions received are used as part of the basis for research to cross reference to the specific queries for retaining the completeness of this source of information.

Position Papers guide National Treasury to reach conclusions after having engaged in consultation as may be defined by the mSCOA Technical Work Group, and supplemented by the views of the mSCOA Project Steering Committee.

Recommendations to the mSCOA Project Steering Committee may include appropriate reference to any National Treasury documentation requiring review, following the conclusions reached on the position paper.

CONTENT

[BACKGROUND 5](#_Toc466032366)

[LEGISLATIVE REQUIREMENTS 6](#_Toc466032367)

[WHY INVOLVE INTERNAL AUDIT 6](#_Toc466032368)

[WHEN SHOULD INTERNAL AUDIT BE INVOLVED? 7](#_Toc466032369)

[THE ROLE OF INTERNAL AUDIT THROUGH THE PROJECT LIFECYCLE 8](#_Toc466032370)

[HOW CAN INTERNAL AUDIT HELP? 9](#_Toc466032371)

[PROJECT IMPLEMENTATION: A PEOPLE, PROCESS, TECHNOLOGY AND RISK MANAGEMENT PERSPECTIVE 10](#_Toc466032372)

[THE ROLE OF INTERNAL AUDIT IN SYSTEM CONVERSION OR RE-IMPLEMENTATION 12](#_Toc466032373)

[AUDIT OBJECTIVES SPECIFIC TO SYSTEM CONVERSION OR RE-IMPLEMENTATION 13](#_Toc466032374)

[EIGHT-STEPS TO CONSIDER IN THE INTERNAL AUDIT PROCESS 14](#_Toc466032375)

[Step 1: Understand the IT Initiative and Project Plan 14](#_Toc466032376)

[Step 2: Complete a Risk Assessment of the Operational Changes Planned relating to the mSCOA System Implementation 14](#_Toc466032377)

[Step 3: Assess the Project and Implementation Plans 15](#_Toc466032378)

[Step 4: Assess the Data Mapping efforts and the Operational Changes Planned 15](#_Toc466032379)

[Step 5: Assess the Adequacy of Testing Plans 16](#_Toc466032380)

[Step 6: Complete an Implementation Readiness Assessment 16](#_Toc466032381)

[Step 7: Develop and execute the audit verification plan 16](#_Toc466032382)

[Step 8: Complete the Overall Audit Analysis of the Implementation 17](#_Toc466032383)

[Reporting and Concluding 17](#_Toc466032384)

[CONCLUSION 17](#_Toc466032385)

[RECOMMENDATION 18](#_Toc466032386)

[SOURCES OF REFERENCE: 18](#_Toc466032387)

[ANNEXURE A: SPECIFIC CONSIDERATION FOR THE ATTENTION OF THE INTERNAL AUDITOR IN PLANNING AUDIT ACTIVITIES 19](#_Toc466032388)

[ANNEXURE B - KEY CONCEPTS AND PRINCIPLES EXTRACTED FROM THE NATIONAL TREASURY INTERNAL AUDIT FRAMEWORK 24](#_Toc466032389)

[ANNEXURE C: COMMENTS AND QUERIES RECEIVED INFORMING THE PROBLEM STATEMENT 28](#_Toc466032401)

[ANNEXURE D - NATIONAL TREASURY DOCUMENTS TO BE REVISED FOLLOWING THE ADOPTION OF THIS POSITION PAPER 32](#_Toc466032402)

[National Treasury Internal Audit Framework (March 2009 2nd Edition) 32](#_Toc466032403)

## BACKGROUND

In the opinion of National Treasury, the mSCOA Regulation introduce more than only a financial reform but a significant change in municipal business processes and becomes an instrument facilitating organisational change involving more than only financial and budget orientated practitioners. The mSCOA implementation is considered to be a system conversion and/or reimplementation with all the major risks typically associated with a system.

Questions had been raised since the inception of the mSCOA Project on the role, responsibility and involvement of the municipalities’ risk management units and the internal auditors.

This position paper focuses on internal audit activities specific to the mSCOA Project implementation at pilot and non-piloting municipalities. The use of this document is broader than only internal auditors, thus includes more explanation on concepts and principles internal auditors should be familiar with. Please refer to Annexure A for explanations on terminology and concepts used in the content.

The Internal Audit Framework issued by National Treasury in March 2009 comprehensively deals with the minimum requirements in complying with the Constitution of the Republic of South Africa; the Municipal Finance Management Act No 56 of 2003; The Institute of Internal Auditors’(IIA) International Standards for the Professional Practice of Internal Auditing (ISPPIA); and, the [Committee of Sponsoring Organizations of the Treadway Commission](http://www.coso.org/) (COSO) framework on internal control; as well as the risk management framework.

Internal audit is well positioned to add value to the conversion and/or re-implementation process and it should play a vital role in project assurance and governance. Effective contribution from internal audit requires assessment and refinement of its capabilities; and, partnerships with business units, the senior executive team and the audit committee.

Internal Audit can help identify project risks early in the project lifecycle, which in turn will provide the municipality with sufficient time to course-correct and help obtain maximum value from the conversion and/or re-implementation of the system.

The primary role of the internal audit entails evaluation of processes, people, technology, monitoring of the conversion/re-implementation, risk management and communication/education/training. Furthermore, internal audit is able to add value by prioritising needed changes or desired improvements. Ultimately, management “owns” the conversion/re-implementation with internal audit as a strong partner.

Covered in the position papers is the role of the internal auditors in bringing value to the municipality by evaluating both the information technology (IT) and /organisational aspects of system conversation projects. Auditing these conversions provides assurance to management and the council that “all that can be done is being done”.

The role of Internal Audit will differ per municipality according to the size, complexity and needs of the municipality. Therefore, some of the content might not be relevant or applicable to all municipalities. The Internal Audit departments will still need to apply the IIA Standards in their advisory- or assurance provider capacity.

## LEGISLATIVE REQUIREMENTS

The Local Government: Municipal Finance Management Act (No 56 of 2003) section 165 requires that each municipality/municipal entity must have an internal audit unit. In addition, the responsibilities prescribed by this act indicates that 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;
      * compliance with this Act, the annual Division of Revenue Act and other applicable legislation; and
      * perform such other duties as may be assigned to it by the accounting officer.

In addition to the above legislative requirements the internal auditors conduct their work based on the International Standards for the Professional Practice of Internal Auditing (ISPPIA) issued by the Certified Institute of Internal Auditors (CIA) and subscribe to the King III report.

## WHY INVOLVE INTERNAL AUDIT

The International Standards for the Professional Practice of Internal Auditing (ISPPIA) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Internal Audit provides an independent and objective:

* + opinion (assurance) on risk management, control and governance, by measuring and evaluating their effectiveness in achieving the organisation’s agreed objectives. In addition, Internal audit’s findings and recommendations are beneficial to line management in the audited areas. Risk management, control and governance comprise the policies, procedures and operations established to ensure the achievement of objectives, the appropriate assessment of risk, the reliability of internal control and external reporting and accountability processes, compliance with applicable laws and regulations, and compliance with the behavioural and ethical standards set for the municipality; and
  + consultancy/advisory service specifically to help line management improve the municipality’s risk management, control and governance. The service applies the professional skills of internal audit through a systematic and disciplined evaluation of the policies, procedures and operations that management put in place to ensure the achievement of the municipality’s objectives, and through recommendations for improvement. Such consultancy work contributes to the opinion which an internal audit provides on risk management, control and governance.

Internal Audit should provide assurance and/or advice to senior management Council, the Audit Committee and other stakeholders on:

* + Project governance, including policies, procedures and controls.
  + Business case validity, viability and whether worthwhile and feasible.
  + Project planning matters such as the critical path, completeness and suitability.
  + Change management attending to adherence to controls in the business processes and timeliness.
  + Risk and issue management addressing depth, coverage and resolution.
  + Project costs considering actual, compared to budgeted.
  + Sign-off and criteria for stage gates.
  + Approach to vendor management for example contracting, dependencies and management involvement in process ownership and decision making.
  + Business readiness “pre-go-live..
  + Project communications being accurate, sufficiently detailed and realistic.

## WHEN SHOULD INTERNAL AUDIT BE INVOLVED?

The earlier the internal auditors get involved the better since it will increase the internal auditors understanding of the project’s lifecycle and its key benefits, requirements, drivers and objectives. This enables internal audit to contribute to the project as it defines its risk management approach and strategy.

Internal audit’s involvement at an early stage ensures greater alignment of the risk management principles to those of the municipality itself. It also allows internal audit to establish and confirm its future involvement and method of engagement on the level of inherent risk in the conversion/re-implementation of the system.

Benefits of engaging internal audit early on in the project lifecycle include:

* + Better organisational readiness.
  + Early identification, greater understanding and improved resolution of issues.
  + Increased likelihood of delivering the project on scope, on time and on budget.
  + Better change management so that new systems are embraced.
  + Increased project control to maximise efficiency.
  + Improved ability of the internal audit and risk management functions to provide a thorough assurance solution.

## THE ROLE OF INTERNAL AUDIT THROUGH THE PROJECT LIFECYCLE

Internal audit has a role to play throughout the project lifecycle. The table included hereunder provides a summary of some activities within the phases of the project lifecycle.

| **Planning** | **Execution & Control** | **Completion** | **Benefits** |
| --- | --- | --- | --- |
| * Review of business case and its internal governance processes * Clear articulation of expected benefits * Validation of expected cost and related due diligence * Articulation of key strategic and project risks and how they will be managed * Identification of roles, responsibilities and accountabilities * Project governance process e.g. review of Project Implementation Plan | * Participate in steering committee * Adequacy and accuracy project reporting – milestones, risks, costs and schedules * Review business controls structure, change management, employee engagement and training * Assess business impact and strategic changes required * Evaluate impact on IT application and general controls * Provide independent assurance to the Executive Management / Council | * Organisational readiness * Data migration – accuracy/ completeness * Contingency planning * Post-implementation review * Controlled testing of effectiveness * Review policy/ procedure changes necessary | * Provide organisational feedback on lessons learnt |

## HOW CAN INTERNAL AUDIT HELP?

The two questions most commonly asked of internal audit by senior management, council, the audit committee and other stakeholders when faced with a significant initiative are:

* + Are we doing the right things?
  + Are we doing them in the right way?

Internal audit’s involvement should be tailored to address these questions and to meet the unique risks of the program.

### Are we doing the right things?

### Initial Risk Assessment of the Project

Through this step, Internal Audit can understand the key elements of the project, including approach, methodology, activities, timelines, resources and requirements. This step helps determine the specific processes and controls that are in place, and identifies the key risks for internal audit to tailor the detailed checkpoint reviews to cover the risks.

### Performing ongoing “Health Checks”

Ongoing reviews by the internal audit assist in ensuring the key risks related to the project scope, timelines, cost, and deliverables are identified and appropriately managed.

The timing and scope should be adjusted to address project risks, status, milestones and audit committee-, senior management- or Council requirements, based on IA’s assessment.

### Are we doing the right things in the right way?

Risks can quickly become major issues during the course of large projects. It is imperative for internal audit to be involved at the individual work stream level to help identify and monitor key risks. The aspects of project management listed in the paragraphs to follow are critical success factors where the internal auditors can perform assurance or provide value-adding advice.

### Business Case Validation

Even before the actual program begins, key questions, assumptions, analyses and other components of the business case may be misaligned with the corporate strategy, organisational structure and capability, technical complexity and competency or a number of other factors.

Emerging trends relevant to the sector, forthcoming regulatory developments and evolving technology can also compromise elements of the business case. Reference and validation back to the business case through the project lifecycle is a leading practice.

How can internal audit assist?

* + Evaluate the linkage between project metrics and strategy when the business case is prepared.
  + Evaluate individual components and challenge assumptions within the business case as it is presented.
  + Support the program team in the benefits tracking and realization process during project execution.

## PROJECT IMPLEMENTATION: A PEOPLE, PROCESS, TECHNOLOGY AND RISK MANAGEMENT PERSPECTIVE

Large projects need to focus on successful process alignment, technology deployment, people engagement and risk management. There are some critical components that form part of the decision to go live and help the project stay on track. Internal Audit can help with both the decision to go live and in measuring the success of the program applying a lens of people, process and technology.

### Process

Internal Audit can help:

* + Verify that standard operating procedures are in place.
  + Validate completion of testing and data conversion processes.
  + Advise and help identify relevant key process-level risks and control gaps.
  + Support the design of business process controls to mitigate process-level risks and provide certification analysis.
  + Evaluate “go-live” processes such as the creation of a transition team, parallel runs, crossover steps, contingency plans (including roll-back), end-user computing and output demands, risk management, and issue escalation and resolution.
  + Evaluate transition plans and identify any operational and organisational issues that are critical to launch.
  + Assess whether any duplications exist in systems or efforts.
  + Ensure interdependent risks are being managed.

### Technology

Internal Audit can help:

* + Ensure that functional needs, including forms and reports, are in place.
  + Audit hardware and software environment (operating system, network, user workstations, printers).
  + Check interface projects.
  + Measure application, operating system and network security.
  + Evaluate transition plans for technical processes and data.
  + Evaluate IT system integration and data migration in terms of both quality and security.
  + Validate and track benefits and cost savings.

### People

Internal Audit can help:

* + Check whether end-user training and guides, including transition readiness are in place.
  + Provide an analysis on post-implementation sustainability.
  + Measure resource utilisation.
  + Control and assess culture within the organisation.
  + Analyse whether skills and capability of the team are well suited to the project.

### Risk Management

Internal Audit can help:

* + Be the eyes and ears of the audit committee.
  + Evaluate the risks inherent in the conversion process.
  + Monitor changes to the overall organisation risk profile.
  + Re-prioritise audit focus, as appropriate, given the demands of conversion.
  + Communicate audit plan focus and changes to the audit committee.
  + Collaborate and coordinate with other risk management functions.
  + Monitor the conversion impact on the internal controls.

## THE ROLE OF INTERNAL AUDIT IN SYSTEM CONVERSION OR RE-IMPLEMENTATION

Internal auditors play a valuable role in ensuring that information technology (IT) investments are well-managed and have a positive impact on the environment. Their assurance role supports senior management, the audit committee, the council and other stakeholders. Internal auditors follow a risk-based approach in planning their audit activities. Audit best practices suggest internal auditors should be involved throughout a project’s life cycle - not just in post-implementation assessments.

Converting from old to new systems is an important aspect of the audit planning process, not to be underestimated. Implementing a new system usually requires a variety of system changes; production data conversion and migration; new operational policies and procedures. Each of these areas poses significant risk to the municipality during the actual system conversion. Consequently, conversion audit efforts typically focus on reviewing plans and results for:

* + The overall implementation of the IT solution.
  + The systems that are required to implement the IT solution.
  + The operational changes required within the municipality as part of the implementation.

When planning system conversion audits, internal auditors need a good understanding of the business requirements for the system, the project’s risks and how the proposed system will work. To understand the solution, they must identify the various operational and system changes that will be implemented. Project information may become available over time; some audit planning will have to be completed on an interactive basis.

Conversion audits should be done commencing with the project planning, and frequent and timely reporting of the findings. Being involved early in the project initiative is vital to developing a good understanding of the project's issues, challenges, and risks, as well as what management is doing to address them. Ideally the audit activity need to be scoped from the business plan or case for change, council as early as possible, before it is approved by the municipalities executives or where applicable.

A good audit practice is to complete a short "lessons learned" review of the audit efforts performed throughout the conversion audit and apply them to the generic conversion audit process.

Internal auditors should determine their level of involvement and approach during the project's initiation phase. The audit involvement decision should be based on the project’s risk assessment, as well as factors such as the project team's project management experience, level of management involvement, size and complexity of the initiative, and impact on the organization should the initiative be delayed or unsuccessfully implemented.

The most appropriate audit approach needs to be defined during the audit project planning phase. Following step 1 of the generic eight-step audit process will complete the definition of audit's level of involvement. Further adjustment of audit involvement may be required depending on the results of the project’s efforts and auditors' assessment throughout the project's life cycle. Another important consideration to discuss with management and the project team is the internal auditors' roles and responsibilities in attending project team meetings throughout the conversion audit.

## AUDIT OBJECTIVES SPECIFIC TO SYSTEM CONVERSION OR RE-IMPLEMENTATION

Internal auditors’ involvement with a system conversion typically involves reviewing and assessing the overall project plan and project management.

The internal audit function in reviewing the overall project plan should consider whether the budget is adequate or excessive by benchmarking with other similar municipalities.

Internal auditors should also assess the accuracy and completeness of the systems and data requirements for the IT solution, including:

* + Evaluating and monitoring management's project plans for the various system changes that are required.
  + Data cleaning is one of the most problematic areas and it is critical that clean data gets moved to the “new systems” for mSCOA implementation. Therefore, it is imperative that the data cleaning prior to the “move” should be tested properly.
  + Assessing the completeness and appropriateness of management's systems and database design, including the security aspects.
  + Reviewing the user-acceptance and parallel test planning and results to demonstrate successful end-to-end system operations and preparedness for implementation. In a parallel test, the project team simultaneously tests both the old and new systems using the same data and compares their results in a comprehensive manner.
  + Reviewing the start-up of production systems and associated client data to ensure data integrity is maintained and back-out plans in the event of a problem are effective.

In addition, internal auditors should assess the accuracy and completeness of the start-up of operational responsibilities within the municipality by:

* + Evaluating and monitoring management’s project plans for the various operational requirements.
  + Assessing the completeness and appropriateness of the operational policies and procedures that are developed.

Finally, internal auditors should assess the risk-management processes applied by project management to ensure that they are followed throughout the project. Identifying and assessing the risk involved during the various stages of the project will reduce the risk to the municipality by ensuring that implementation of the IT solution is controlled and accurate. The audit objectives are finalised during detailed audit project planning.

## EIGHT-STEPS TO CONSIDER IN THE INTERNAL AUDIT PROCESS

The following process describes the steps to be completed by internal auditors for a typical system conversion/re-implementation. These straightforward and flexible steps include the IT and non-IT aspects of the conversion.

Depending on a variety of factors such as the size, complexity, and time frame of the systems project, this generic internal audit process should be refined and finalised during the detailed audit project planning phase.

## Step 1: Understand the IT Initiative and Project Plan

Internal auditors should review with both the project's management team and the business units the scope of the initiative; supporting project plans; high-level implementation plans and schedules; proposed implementation programs; and, project controls.

A good understanding of the overall solution is needed to provide the big-picture context in support of the audit risk assessment and detailed audit-planning effort. It is important to understand how the system benefits the municipality and what the system's role will be in delivering business objectives. It is also important that the project team develop well-documented objectives and have them approved by management.

During this step, internal auditors should also finalise the system conversion audit plan by modifying the generic audit process to reflect the actual IT project's objectives, issues, and assurance needs.

The high-level risk assessment would further guide the system-conversion audit-planning process. The actual level of audit involvement and audit approach should be determined by internal auditors during a detailed audit project planning phase when the first step of the process is finalised.

## Step 2: Complete a Risk Assessment of the Operational Changes Planned relating to the mSCOA System Implementation

Internal auditors should develop a detailed understanding of the operational changes driven by the system implementation that are being planned and facilitate an independent risk assessment of those changes.

Without an ongoing risk assessment process, surprises will occur frequently, with negative consequences to the schedule, cost, and quality. The adequacy of controls put in place to address the risks identified, as well as the effectiveness of these controls, determine the scope of testing to be done by the internal audit activity. The results of this analysis should be factored into the project team's plans and focus.

The audit risk assessment should be documented in the internal audit readiness analysis.

## Step 3: Assess the Project and Implementation Plans

Internal auditors should complete an assessment of the appropriateness of the project plans, implementation and testing plans, and data-conversion program specifications that are being developed. Auditors should provide feedback about their assessment of the implementation approach to the project's management team.

The project team and management benefit from receiving an independent assessment of the project efforts and plans, because the intense pressure to show early progress often causes some important aspects of planning to be overlooked. Having internal auditors review the early project efforts further assures stakeholders that all important aspects of the project have been considered in planning.

The internal auditors' views on the new system's internal controls can benefit the implementation of the overall solution, which system may not be as robust as mature legacy systems that have had years of controls hardening.

## Step 4: Assess the Data Mapping efforts and the Operational Changes Planned

Internal auditors should assess the adequacy and completeness of the planned data conversion control reporting, including a review of the system data mapping for the implementation of changes to production data, if any. Data mapping sets the necessary foundation for maintaining the integrity of the production data during implementation. [[1]](#footnote-2)In addition, the historical requirements for data can be extensive.

During this step, internal auditors need to assess the adequacy and completeness of data mapping for implementing production data by reviewing the systems data, mapping itself, and the controls and reporting with regard to this activity. Special attention should be given to the impact the data conversion has on other systems that are not involved in the conversion. This is a high-risk area in all conversions, because downstream systems may be affected in unexpected ways.

## Step 5: Assess the Adequacy of Testing Plans

At this stage, internal auditors should assess the adequacy of the testing plans, the data-conversion control reports to be used, and test scripts involved with the implementation.

Internal audit should ensure that appropriate project resources have been assigned to this activity, so that the level of testing efforts reflects the risks involved.

Internal audit should review the assignment of responsibilities (i.e., Who does what?) and related service level agreements for completeness and appropriateness. Further to this review the project's outputs regarding business and IT processes envisioned for implementation.

Finally, review and feedback on the implementation plans should be provided to the project management team, where appropriate.

## Step 6: Complete an Implementation Readiness Assessment

Internal auditors should complete a high-level readiness assessment of the municipality's ability to implement the required operational and system changes.

This analysis will identify whether or not additional management efforts are required to complete the preparation for the actual conversion.

Internal audit should review the documentation being developed to support the solution's implementation and operation user training materials; new and refined policies and procedures; internal and external communication; and, other key project outputs as determined in the previous steps.

The audit conversion readiness assessment should be documented in an internal audit worksheet, usually a one- or two-page high-level summary.

The internal audit report should also be provided to management before the solution's implementation.

As part of the audit feedback to project management, internal auditors should also attend key project management check-point meetings and provide their views verbally.

## Step 7: Develop and execute the audit verification plan

Internal auditors should complete the detailed audit program to review production implementation. At implementation, management, council and the audit committee will look to internal auditors to provide additional assurance that the implementation is executed prudently and successfully.

The audit tests will usually focus on reviewing the results of the project team- and business unit's test results. This includes reviewing the results of the start-up at the first site and monitoring the rollout at the other sites if the conversion is a multi-site implementation.

A review of the testing of the initial production operations using the new solution should also be completed.

## Step 8: Complete the Overall Audit Analysis of the Implementation

Internal auditors should complete the audit analysis of the results of the implementation and the management actions that had been completed to address any issues that were raised during the actual implementation.

In major conversions with many implementation activities, some operational issues that were not considered ahead of time may need to be addressed during implementation. For example, an obscure data conversion problem may occur for a minor data element, requiring manual corrections to be instituted to allow the implementation to go forward. Management review of this manual effort, following implementation, might be recommended to ensure nothing significant was missed.

Decommissioning the old system can be another challenge facing management, in ensuring appropriate efforts are completed for this area to be productive. Reviewing the archiving and retrieval controls from the old system to ensure that access to the information is available and adequately protected should not be neglected.

A post-implementation audit report on the adequacy, effectiveness and accuracy of the implementation should be developed and presented to management.

The internal auditors should complete the working paper file.

## Reporting and Concluding

Reporting of audit results can also be flexible, for example, if the auditors feel it is important to communicate concerns, they can do so throughout the project; otherwise, they should normally produce written pre-implementation and post-implementation audit reports. By being involved early in the IT project, auditors can informally raise questions and suggestions that influence a project without actually making formal audit recommendations.

Internal audit should voice concerns during the project if they believe management is not taking the more informal recommendations seriously and they feel their concerns need to be escalated to senior management or the audit committee. The internal auditors typically report to the audit committee twice a year about IT projects, detailing audit efforts that are in progress but have not been reported to senior management.

## CONCLUSION

Internal audit can help with both the decision to go live and in measuring the success of the program applying a lens of people, process and technology. The involvement of internal audit at an early stage of the project life cycle towards mSCOA implementation is critically important.

A quote from an article published by the Institute of Internal Auditors: “A Conversion to a new system is one of the highest risks that any organisation can face, internal auditor’s involvement and independent assessment of the issues and project plans can provide value far in excess of the audit’s costs. “

## RECOMMENDATION

The mSCOA Project Steering Committee to note:

* + - * Version1 of this Position Paper on Debt Impairment and Write-off was discussed and presented to the ICF at the 9 September 2015 meeting.
      * Content discussed and agreement reached by the OAG with the ASB on 15 February 2016.
      * Comment period offered to the ASB Forum Members and invitation extended to all municipalities / provincial treasuries from beginning of March to 8 April 2016. Comments received up to 12 July 2016 considered in finalisation of the Position Paper.
      * Position Paper to be recommended for publishing to the National Treasury Web.

## 

## SOURCES OF REFERENCE:

IT Compliance Institute

National Treasury Internal Audit Framework

The Institute of Internal Auditors

City of Cape Town Internal Audit Department

Ernst and Young Internal Audit Department

## ANNEXURE A: SPECIFIC CONSIDERATION FOR THE ATTENTION OF THE INTERNAL AUDITOR IN PLANNING AUDIT ACTIVITIES

The table presented hereunder provide some consideration for the internal auditor in assessing the municipality’s preparation for mSCOA implementation and the underlying system conversion.

|  | **CONSIDERATION** | **CLASSIFICATION** |
| --- | --- | --- |
| **A.** | **Strategic and Political Awareness and Responsibility** | |
|  | Council briefed on mSCOA concepts. Regular update on progress made upon implementation, challenges and risk response. | Political awareness |
|  | mSCOA Implementation and system conversion accepted as a strategic objective and defined as such in the municipality strategic and business plan. | Strategic recognition and project support |
|  | Project assigned to a senior manager to oversee, manage and define project activities. Specific consideration to be given to the team composition verifying that the ‘people’ part of the implementation is covered in the project plan especially change management and training, review of job profiles and where necessary job titles. | Strategic recognition and project support |
|  | mSCOA outcomes defined as an “organisational key performance area” and supported by a senior manager and staff personalised performance agreements. | Strategic recognition and project support |
|  | Organisational and business risk assessed and managed through the formalised risk management process of the municipality. | Risk Committee/Risk Management Activities |
|  | Project manager overseeing the preparation of a comprehensive project plan, defined milestones and adequate resource allocation. Some critical matters to be considered and managed through the project plan:   * Sufficient detail to define impact on the whole of the municipality. * Implementation requirements defined by consulting all business areas and levels of staff. * Adequate sharing of information. * Define and address impact on business processes. * Time allocation for activities. * Response to delays. * Request for assistance and technical support. * Resource allocation. | Project Management and Oversight |
|  | * Succession planning of key responsibilities and hedging of risks associated. * Project documentation and audit trail. * Activities sufficiently documented, decisions recorded and actions taken to record all activities for reference purposes. * Documentation of system changes and business process consideration to retain an audit trail. | Project Management and Oversight |
|  | Budget provision adequate to support the mSCOA/System Conversion process. Control being exercised over utilisation of budgeted resources. | Project Management and Oversight |
|  | mSCOA Version Control – process defined to ensure activities aligned to the latest release of mSCOA. Alternatively, the decision might have been taken to work on a specific release and at a later stage to assess changes made in a later release and update activities for implementation. | Project Management and Oversight |
|  | The role and involvement of System Vendors defined. | Project Management and Oversight |
|  | Change Management, sharing information, involvement of various levels in business process integration. Attendants to meetings sharing knowledge through formalised communication channels. Institutionalised training to prepare all levels of staff on the business process requirements; mSCOA application within system environment; revised budget requirements; and, potential impact on business reports. | Change Management |
|  | Integrity of data after “data cleaning” need to be verified before converting to the new system. Important that this exercise need to be completed prior to conversion. | ??? |
|  | Access to historical information, conversion done to new system defined. Audit trail for all balances converted, unbundled or consolidated. | Secure Information |
|  | Concerns, questions and uncertainties logged in FAQ with National Treasury, resolved. | Change Management |
| **B.** | **Function/Municipal Standard Classification** | |
|  | Association of Function Classification to Municipal Standard Classification adequate and within the “function definition”. | Customisation |
|  | Appropriate decision made on “core vs non-core” functions. | Customisation |
|  | Consider appropriateness of detail added to classification is within the definition of the “parent account”. | Customisation |
|  | Code structure correctly set-up for “children” added to the structure. | Customisation |
| **C.** | **Project** | |
|  | Capital projects defined within the concept of the IDP. Also consider other sources of information used. | Customisation |
|  | Construction Work-in-progress - balance split to defined projects. | Customisation |
|  | Project used as the driver for setting-up budgets. | Customisation |
|  | Repairs and maintenance dealt with as an operational project. | Customisation |
|  | Code structure correctly set-up for “children” added to the structure. | Customisation |
|  | Consider descriptions used for projects – no general, special, other, etc. projects created. | Customisation |
| **D.** | **Regional Indicator** | |
|  | Information provided to mSCOA to add to Tables. | Customisation |
|  | Code structure correctly set-up for “children” added to the structure. | Customisation |
| **E.** | **Funding** | |
|  | Funding detail customised by the municipality. | Customisation |
|  | Code structure correctly set-up for “children” added to the structure. | Customisation |
|  | Process followed in setting up “opening balances”? | Customisation |
| **F.** | **Item** | |
|  | Municipality customised mSCOA accounts to only what is needed? | Customisation |
|  | Cash Equivalents, Investments, Current and Non-current Borrowings set-up based on detail relevant to the municipality. | Customisation |
|  | Property, Plant and Equipment – asset register classification aligned to high-level categories as per mSCOA in accordance with guidelines. | Customisation |
|  | Code structure correctly set-up for “children” added to the structure. | Customisation |
| **G.** | **Compliance Requirements** | |
|  | Code Structure – short code conversion tables to mSCOA codes | Customisation |
|  | mSCOA Regulation Compliance to all requirements. | Customisation |
|  | Extraction of import files without manual interference. | Customisation |
|  | Only be added if provides for “breakdown allowed”. | Customisation |
| **H.** | **Financial Statements and Budget Preparation** | |
|  | Restatement of Comparatives – sufficient audit trail to support changes made. | Balance Verification |
|  | Audit trail supporting unbundling of opening balances | Balance Verification |
|  | Process defined for converting opening balance, closing of “old system” and roll over to new system. | Balance Verification |
|  | Processing of year closing entries, including audit adjustments to old system and new system – depending on the process defined. | Balance Verification |
|  | Budget for implementation year prepared using mSCOA. The allowed alternative during the implementation phase may entail that the approved budget, not necessarily compiled using mSCOA (either not the going-live version) be converted to the actual version used for “going live. This conversion including the “adjustment budget” must be approved by Council. | Balance Verification |

## ANNEXURE B - KEY CONCEPTS AND PRINCIPLES EXTRACTED FROM THE NATIONAL TREASURY INTERNAL AUDIT FRAMEWORK

1. Various internal audit methodologies are applied by internal auditors. The paragraphs to follow provide for extracts of key principles and definitions based on a generally accepted framework for local government used as the basis to prepare this document.

## Internal Audit Activity (IAA)

The International Standards for the Professional Practice of Internal Auditing (ISPPIA) defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

## Governance Processes

The role of the internal audit activity with respect to good governance should be to assist the organisation in achieving its goals, by creating and maintaining particular values. It does so through the appropriate accountability and by evaluating processes that contribute to the achievement of these goals and values, specifically the communication of the goals and values and the processes used to monitor their respective achievement.

## Risk Management

Risk management is an essential part of effective corporate governance and whilst it is a management responsibility, management expects the audit committee to oversee and provide advice on the organisation’s risk management. The audit committee needs to review:

* + Whether management has a comprehensive risk management framework;
  + Whether a sound and effective approach has been followed in developing strategic risk management plans;
  + The impact of the organisation’s risk management framework on the control environment; and
  + The organisation’s fraud prevention plan to be satisfied that the organisation has appropriate processes and systems in place to capture, monitor and effectively investigate fraudulent activities.

## Risk Management Processes

Risk management is a key responsibility of management and the accounting officer. Internal auditors should assist both management and the audit committee by examining, evaluating and reporting on the adequacy and effectiveness of the risk management process.

## Risk Management Activities

Management is responsible for ensuring the establishment of effective risk management in the organisation. The approach followed provides a mechanism of formalising the responsibility and establishing accountability for management activities. This is often achieved through the establishment of a “Risk Committee” function. Its efforts should identify further actions that may be needed to reduce risk to an acceptable level.

## Risk Based Planning

Risk based planning means finding the correct balance of risk based versus cyclical based audits. This balance depends on the maturity of an organisation’s systems and processes; the extent to which policies and procedures and internal controls are entrenched and complied with; and, the general strength of the wider control environment. Best practice is that the internal audit activity spends most of its time on risk-based audits, and the rest on cyclical-based audits, follow-up audits and ad hoc requests.

## Risk Based Audits

Given the results from the risk assessments performed (which generally indicate only a satisfactory-to-weak control environment) it may be appropriate for the internal audit activity to focus its attention on the high risk areas, mostly concentrating on ensuring that key controls are in place and adhered to.

## Internal Control Processes

The operation of internal control systems is the responsibility of the relevant line managers.

The internal audit activity should evaluate the existing controls in terms of their adequacy and effectiveness, assessing the change in the likelihood of any risk materialising, and develop recommendations for their improvement. Recommendations should always add value, and should be measured against the reduction of the likelihood that a risk can materialise.

The internal audit activity is a key factor in ensuring that an organisation is effectively managed and that its resources are not misused or misappropriated.

Internal controls are not limited to financial matters but apply to operations as well. Essentially, it is a management system, culture and set of values designed to ensure that the organisation is managed efficiently and effectively, with the appropriate policies and procedures that promote the achievement of its overall goals and objectives.

## Control Environment and System of Internal Control

The control environment would include the internal auditor’s responsibility on reporting to the audit committee on the control environment and, in return the audit committee’s responsibility is commenting on the internal controls of the municipality annually. It would also include the existence and maturity of a combined assurance model and implementation thereof. Furthermore, if the municipality has formally adopted a control environment and system of internal controls this framework will be relevant in light of the mSCOA implementation and conversion/re-implementation.

Internal audit activity is an important component of internal control, risk management and corporate governance and provides the necessary assurance and advisory services to the organisation.

An internal audit activity is one of the most significant management tools and can provide value-added services to the organisation. When objectively and adequately resourced, an internal audit activity should be in a position to provide management with much of the assurance it requires regarding the effectiveness and adequacy of the system of internal control, risk management and governance processes.

The internal audit activity must be well planned, organised, staffed, trained, directed and monitored.

Internal audits must be conducted in accordance with the standards set by the Institute of Internal Auditors (IIA). These standards, together with the various implementation guides according to the International Professional Practice Framework updates, issued by the IIA, provide much of the guidance required by the internal audit activity for conducting its work.

## Roles and Responsibilities of the Audit Committee

The roles and responsibilities of an audit committee should be determined by the accounting officer in consultation with the external auditor taking into account the following:

* + the organisation’s size, complexity and nature of its business;
  + nature of governance structures;
  + maturity of organisation’s risk and control environment;
  + skills, experience and personal qualities of potential members; and
  + mechanisms and processes which need to be established to enable the audit committee to meet its responsibilities.

## Relationship with the Office of the Auditor- General/External Auditors

In terms of the International Standards for the Professional Practice of Internal Audit (ISPPIA) the internal audit activity should share information and co-ordinate its activities with those of the internal and external providers of assurance and consulting services. This is done to ensure appropriate coverage of risk areas and minimise duplication of efforts.

There should be mutual access to audit plans and programs, as well as audit reports. It is recommended that periodic meetings be held between the internal audit activity and external audit. At these meetings key risks should be discussed, audit scopes should be shared, priorities should be emphasised and findings should be discussed.

The internal audit activity can assist external auditors obtain an in-depth level of understanding of the audit client’s business. The external auditors are mainly concerned with the fair presentation of the organisation’s financial statements.

In terms of the ISPPIA the internal audit activity should share information and co-ordinate its activities with those of the internal and external providers of assurance and consulting services. This is done to ensure appropriate coverage of risk areas and minimise exposure. Further to this the impact of co-ordination efforts provides combined assurance to the audit committee and council.

# 

## ANNEXURE C: COMMENTS AND QUERIES RECEIVED INFORMING THE PROBLEM STATEMENT

| **Reference / Date** | **From** | **Number** | **Query** | **Response** |
| --- | --- | --- | --- | --- |
| **Email Query** | Hugo van Aarde  Sebata |  | The document is comprehensive. The following is my concerns: - | Comment Noted |
|  | What happens if the municipality does not have an internal function or do not have the capacity within the internal audit function to perform this function in accordance with the position paper. | Paragraph 10 of this Position Paper has reference. It is non-compliance to the Municipal Finance Management Act, No.56 of 2003 not to have an internal audit unit.  The internal audit unit is an essential contribution in the internal controls instituted by the municipalities. As such the role of the internal audit function as explained in this Position Paper will be part of the municipalities risk management activities.  Not having the capacity will result in the risks associated with the implementation of mSCOA not being sufficiently addressed by the governance structures of the municipalities.  The involvement of internal audit is adding a preventative control measure to the control environment inherent to the municipality. The absence thereof increases the organisational risk taken by the municipality. |
|  | What happens if there is an external auditing firm performing the internal auditing function. | Does not matter if the internal audit function is performed in-house, outsourced or co-sourced. The consideration addressed in this position paper need to be scoped into the annual audit plan. |
|  | My problem is what if the service provider wants to protect their IP and the external audit capacity within the internal audit function is not allowed access to the systems for the sake of IP protection. Should this be an issue? | Yes, this will pose a problem. Limitation placed on allowing access to external auditors in their capacity as internal auditors will place a scope limitation on the scope of work performed by the auditors. The content of this Position Paper certainly does not expose the system vendor to any risks from an intellectual property perspective. |
| **Email and Letter dated 9 May 2016** | Hilton Renald  uMhlathuze |  | The paper is well written and very comprehensive. From piloting this initiative, the uMhlathuze Municipality advises that the following be added to ensure effectiveness of the internal audit plays in the project: | Comment noted. |
|  |  |  | Firstly, the paper correctly high-lights the internal audit role in the project planning and execution, however what is of equal importance is the role they play when going live. Although in a well-managed project there will be user acceptance testing and training prior to going live, the reality of going live will illicit its own set of data migration and transactional challenges. Internal audit needs to play a “due diligence role”. | This concept is discussed in the following section of the Position Paper: Step 8: Complete the Overall Audit Analysis of the Implementation |
|  |  |  | Secondly, this reform roll-out is not “business as usual”, hence both prior and post going live, internal audit needs to place special emphasis to the mSCOA project. | This concept is discussed in the following section of the Position Paper: EIGHT STEPS TO CONSIDER IN THE INTERNAL AUDIT PROCESS: Step 8. Completes the Overall Audit Analysis of the implementation. |
|  |  |  | Due to limited resources in the Country, the additional scope of work that arise from this reform must not simply be added to the normal audit plan, but instead where necessary defer normal/conventional scope to post a stable mSCOA complaint system i.e. unless the National Treasury will add funding for additional Internal Audit, it is suggested that audit plans normal annual program be reviewed specifically to address both prior and post going live detailed audit system and transactional testing. | This concerned is discussed in Paragraph 38 of this Position Paper. |

## ANNEXURE D - NATIONAL TREASURY DOCUMENTS TO BE REVISED FOLLOWING THE ADOPTION OF THIS POSITION PAPER

## National Treasury Internal Audit Framework (March 2009 2nd Edition)

1. The guideline need to be revised to give consideration to the Institute of Internal Auditors’(IIA) International Standards for the Professional Practice of Internal Auditing (ISPPIA) and the [Committee of Sponsoring Organizations of the Treadway Commission](http://www.coso.org/) (COSO) framework on internal control.

1. . Position Paper on Historical Information Critical [↑](#footnote-ref-2)