



public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA



EXPANDED PUBLIC WORKS PROGRAMME

AUDIT REGULATIONS FOR PUBLIC BODIES - EPWP INCENTIVE GRANT

Approval and Version Control

The Audit Regulations were approved by:

Designation	Signature	Date	Version

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1. General definitions¹

In these *Audit Regulations*:

Term	Definition
Audit Sampling	This involves the application of audit procedures to less than 100% of the items within a class of transactions to enable the auditor to obtain and evaluate audit evidence about some characteristics of the items selected, in order to form or assist in forming a conclusion concerning the population. Audit sampling can use either a statistical or non-statistical approach.
Charter	Means a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establish the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and define the scope of internal audit activities.
Compliance	Means adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.
Control	Refers to any action taken by management and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved.
Eligible Public Body	Refers to any organisation that is defined by legislation as a government body; and for purposes of this document, refers to a province, municipality or public entity within these spheres of government that complies with the criteria of eligibility in terms of the Division of Revenue Act 2009.
Fraud	Refers to any illegal act characterised by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.
Governance	Is the combination of processes and structures implemented by the governing bodies to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.
Independence	Is the freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organisational levels.
Internal Audit	Means 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 governance, risk management and control.
Public Body	Refers to any organisation that is defined by legislation as a government body; and for purposes of this document, refers to a province, municipality or public entity within these spheres of government.
Risk	Risk is the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.
Risk management	Risk management is the process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation's objectives.

¹ Definitions, where relevant are in alignment with the definitions of the Institute of Internal Auditors.

2. Introduction

This document provides the basic regulatory framework for maintaining an effective internal audit function to be able to receive the EPWP Incentive Grant.

These regulations were developed in response to the requirements of the 2009 Division of Revenue Act.

It is expected that public bodies will compare their current practices and approaches to the management of project information with these regulations and take necessary action to comply with the stated requirements.

These regulations have been formulated as a set of principles for all public bodies to assist their understanding in meeting these requirements.

2.1 Application

The *Audit Regulations* apply to the internal auditors of eligible public bodies in terms of the 2009 DORA Framework for the EPWP Incentive Grant to provinces and municipalities. The 2009 DORA Framework refers to the need for public bodies to comply with audit regulations.

The *Audit Regulations* should be read in the context of the Incentive Grant Manual.

2.2 Date of commencement

These *Audit Regulations* take effect from 1 April 2009, unless otherwise indicated in the text.

3. Management Arrangements

3.1 Key Principles

3.1.1 Independence and objectivity

Organisational independence: The internal audit function must be free to perform work and communicate results.

The Internal Audit Department must remain independent of all line and functional management and will be answerable solely to the public body's Management and Audit Committee.

The independence of the Internal Audit unit will be ensured by:

- (a) a clear in principle agreement that internal audit will have full access at all times to any records, properties and resources relevant to the projects under review
- (b) access to the Chairperson of the Audit Committee.
- (c) not assuming any line management control
- (d) the Internal Audit function being free of any undue influences or interferences which could restrict, over-rule or otherwise affect the judgement as to the content of a report or in any way require the unit to function under duress or which could affect the conduct of an investigation.

Individual objectivity: Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

3.1.2 Proficiency and Due Professional Care

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their responsibilities in terms of these regulations.

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor.

3.1.3 Quality Assurance

Internal Auditors shall at all times conduct the work assigned to them in accordance with the Audit Methodology and the Standards for the Professional Practice of Internal Auditing. Internal Audit shall further comply with the Code of Ethics of Internal Auditors, as published by the Institute of Internal Auditors.

Regular reviews will be performed by DPW Internal Audit function to assess compliance with the Audit Regulations including, but not limited to, the scope of work conducted and the monthly, quarterly and annual reports submitted by Public Bodies Internal Audit.

3.1.4 Capacity

The internal audit function must establish sufficient capacity to conduct the scope of audit work required to receive the Incentive Grant. Internal Audits at Public bodies need to be properly supervised to ensure objectives are achieved, and quality is assured. If an eligible public body does not have an established internal audit function, the public body is advised to make the necessary arrangements to outsource or co-source the function to ensure compliance with the Audit Regulations.

3.2 Internal audit purpose, responsibility and accountability

3.2.1 Purpose

The purpose of the internal audit function at public bodies for the EPWP Incentive Grant is to maintain an independent objective assurance activity designed to improve the public body's infrastructure project management operations. It will assist the public body accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit will therefore provide the management of the public body, the Audit Committee and DPW's Internal Audit Management with analysis, appraisals, recommendations and information concerning the project activities and information reviewed.

3.2.2 Objective

The objective of the internal audit function at public bodies for the EPWP Incentive Grant is to identify and evaluate significant exposures to risk and contribute to the improvement of risk management, control and governance systems. This should include:

- (a) Overseeing the risk management framework and monitoring risk
- (b) Reviewing the established systems to ensure compliance with those procedures, laws and regulations that could have a significant impact on operations and report and determine whether the public body is in compliance
- (c) Ensuring that an effective system of internal controls exist and is operating as required
- (d) Evaluating the reliability and integrity of financial, project management and other operational information.

3.2.3 Roles and Responsibilities of relevant Parties

The Internal Audit unit of public bodies

- (a) The **role of the Internal Audit unit** is to assist the public body to meet their objectives by providing an independent appraisal of the adequacy and effectiveness of the controls set up by the public body to manage infrastructure project implementation, with particular interest to those projects claiming the EPWP Incentive Grant.
- (b) The Internal Audit unit of each public body is responsible to render the internal audit services required in terms of these Audit Regulations, DORA requirements, the Incentive Grant Agreement, the Incentive Grant Manual and any other relevant documentation issued by DPW in terms of the Incentive Grant.
- (c) **The responsibilities of the Internal Audit unit include:**
 - developing an annual audit plan using an appropriate risk-based methodology, including any risk or control concerns identified by the public body's Management and submit that plan to the Audit Committee for review and approval
 - implementing the annual audit plan
 - maintaining a professional audit staff with sufficient knowledge, skills, experience and professional certification
 - issuing periodic reports to the Audit Committee and the public body's Management summarizing the results of the audit activities
 - providing a list of significant results to the public body's Management, the Audit Committee and DPW Internal Audit.

The Public body

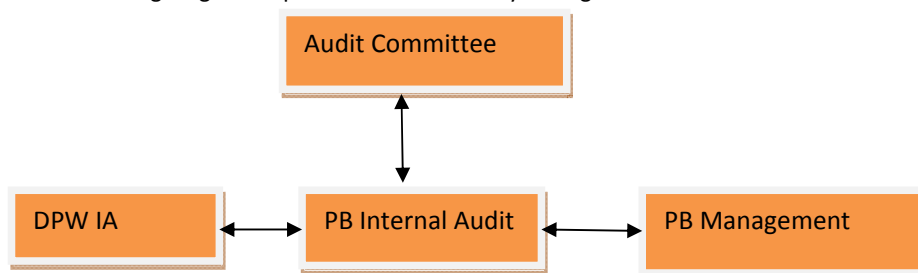
- (a) Although the role of Internal Audit Section is to review internal controls, system procedures, risks etc, **ultimately the public body retains full responsibility for ensuring that they actually implement and maintain an appropriate framework of controls.**
- (b) The public body also has the responsibility and accountability for addressing non-compliance, weaknesses and inefficiencies that have been identified by both External Audit and Internal Audits (conducted by DPW and Public Body Internal Audit), and for taking the necessary corrective action.
- (c) **The public body is further responsible for:**
 - Providing input on the areas of investigation by the Internal Audit
 - ensuring support for the Internal Audit function, including ensuring that the Internal Audit unit has unrestricted access to all relevant functions, records and personnel pertaining to any project whose activities are under review
 - maintaining internal control, including proper accounting records and other management information required for proper and compliant project governance
 - compelling project managers to respond to internal audit queries submitted
 - reviewing Internal Audit reports and implementing recommendations as considered appropriate or as required by DPW
 - informing the Internal Auditors of any significant internal control problems.

The Audit Committee

- (a) The Audit Committee in conjunction with the Accounting Officer is responsible for reviewing the scope of Internal Audit work, and the action to be taken on the outcome or finding from their work.
- (b) The Audit Committee will:
 - Ratify the approval of the internal audit charter or annual audit plan
 - Ensure that the Internal Auditors effectively perform their responsibilities and duties
 - Ensure that the Internal Audit unit complies with the relevant audit rules and regulations
 - Ensure that the Internal Audit unit maintains its independence
 - Review the results of any audit work performed
 - Review the internal audit reports to the public body's Management and their response thereto
 - Liaise with DPW Internal Audit when necessary.

3.2.4 Accountability Arrangements

The following diagram depicts the accountability arrangements:



The Internal Audit unit of each public body shall be responsible to report to the DPW Internal Audit on:

- compliance with the conditions of the Incentive Grant
- risk management and risks
- the controls in place to collect and verify the performance information upon which the Incentive Grant is disbursed
- and other information required as part of the Audit Regulations.

4. Scope of Work

4.1 Planning

DPW Internal Audit must adequately plan for the performance of audit procedures to ensure the objectives of the audit is achieved.

- (a) The primary purpose of planning the internal audit work for the grant is for each public body to determine priorities in order to establish the most cost-effective means of achieving audit objectives; to assist in the direction and control of audit work completion in accordance with predetermined criteria.
- (b) It is important that the internal audit planning include:
 - defining internal audit objectives
 - obtaining a comprehensive understanding of the MIS, project operations and management
 - identifying, evaluating and ranking risks to which the public body is exposed
 - taking into account the weaknesses of the public bodies' controls and management concerns
 - identifying audit areas and determining the type of audit and audit procedures
- (c) Operational work plans should be prepared for each internal audit assignment, including:
 - objectives and scope of the audit
 - time budget and staff allocations
 - methods, procedures and reporting arrangements, including supervision and allocation of responsibilities.

4.2 Risk Management

4.2.1 DPW Internal Audit

DPW Internal Audit must evaluate the effectiveness of the risk management process of the EPWP Incentive Grant at Public bodies. As part of the evaluation consideration will be given to, *inter alia*, the appropriateness and sufficiency of resources with the necessary competencies in the Public Bodies Internal Audit function to perform the audit procedures.

4.2.2 Public Bodies Internal Audit

Public Bodies Internal Audit must evaluate risk exposures regarding the reliability and integrity of information and compliance with to the DORA requirements, the Incentive Grant Agreement, the Incentive Grant Manual and any other relevant documentation issued by DPW in terms of the Incentive Grant and contribute to the improvement of risk management. As part of the evaluation consideration will be given to, *inter alia*, significant risks identified and assessed and potential for the occurrence of fraud and how fraud risk is managed.

4.3 Control

The Public Body internal audit must evaluate the adequacy and effectiveness of controls related to the Incentive Grant regarding the reliability and integrity of information and compliance with the DORA requirements, the Incentive Grant Agreement, the Incentive Grant Manual and any other relevant documentation issued by DPW in terms of the Incentive Grant.

When evaluating the internal controls within the EPWP Management Information System, the Internal Audit should:

- (a) understand the system parameters and control objectives
- (b) assess whether the controls put in place meet control objectives for the projects under review
- (c) test the operation of the controls in practice for the projects under review
- (d) provide an opinion based on audit objectives as to whether the system provides an adequate basis for effective control and whether it is properly operated in practice.

4.4 Detailed audit procedures

4.4.1 Compliance procedures

Public Bodies Internal Audit must test compliance to the DORA requirements, the Incentive Grant Agreement, the Incentive Grant Manual and any other relevant documentation issued by DPW in terms of the Incentive Grant. Included in the EPWP Incentive Grant Manual is a compliance checklist that is a complete list of conditions and rules that public bodies should ensure are met. The compliance checklist must be completed by the Public Bodies Internal Audit and any non-compliance must be reported to management, the Audit Committee and DPW as part of the monthly and quarterly reports.

4.4.2 Documentation and information retention

Public Bodies Internal Audit must ensure on a monthly basis that the following documentation and information is collated and retained:

- (a) Beneficiary information including but not limited to:
 - Identity – name, surname, identity number (a certified copy of the identity document of the worker should be kept at the public body for audit purposes) and a contact number
 - Gender, age and disability status
 - Education level
 - Daily wage to be received
 - Training planned
- (b) Site information including but not limited to.
 - Daily site attendance register indicating all the beneficiaries that were registered as at work everyday
 - Summary of monthly attendance register
- (c) Payment register showing wages paid per beneficiary, signed off by each beneficiary. The payment register contains the following information:
 - Identity – name, surname, identity number and a contact number
 - Gender, age and disability status
 - Wage rate paid
 - Total number of days that the pay period covers
 - Signature or proof of acceptance of payment

Access to project records and required information must be controlled. Retention requirements for project records must be complied with.

4.4.3 Controls and verification of information

Public Body Internal Auditors must identify, analyse, evaluate and document sufficient information to achieve the internal audit objectives. Public bodies internal audit procedures must include but not be limited to:

- (a) Test control of sign-off of attendance register, beneficiary information and payment register
- (b) Conduct surprise visits to ensure actual attendance in accordance with attendance registers
- (c) Conduct surprise visits to ensure validity of recorded beneficiary information
- (d) Compare worker details on attendance register with supporting copies of identity documents
- (e) Conduct tests to ensure information on MIS agrees with supporting information
- (f) Conduct tests to ensure information on payment register agrees with attendance register
- (g) Test payment register to ensure each contract worker signed as proof that payment was received
- (h) Conduct tests to ensure rate of pay falls within the required parameters.

The following table reflects more detail on controls and procedures to be performed. Reference should also be made to the EPW Incentive Grant Manual.

Controls and Procedures for project data collection

Activity	Responsibility	Risk	Time-lapse	Internal controls	Audit procedures	Sample method/ method-ology	Timeframe for audit procedures
Contractor to provide information to Project Manager							
Contractor to sign off daily on attendance register and provide to Project Manager weekly	Contractor to complete and sign off Contractor to provide to Project Manager weekly	Incorrect information compiled Invalid information compiled	Continuous -Weekly	Sign-off by contractor	<p>Public Body internal auditors:</p> <ol style="list-style-type: none"> 1) to test control of sign-off of attendance register 2) to conduct surprise visits to ensure actual attendance in accordance with register 3) Compare worker details on attendance register with supporting copies of identity documents 4) Include results in audit report to be issued two weeks after the end of the quarter. <p>DPW Internal audit to review monthly and quarterly reports from Public Body internal auditors (completed and submitted within two weeks after the close of the quarter) and select public bodies on which further audit work will be conducted.</p> <p>DPW Internal audit to review audit reports/ consult with auditors of MIG 8 reporting on Actual employment and minimum daily wage rate.</p> <p>DPW Internal audit:</p> <ol style="list-style-type: none"> 1) to test control of sign-off of attendance register 2) to perform detail testing on supporting documentation dependent on risk assessment taking Public Body internal auditors' audit work and extent of reliance into account. 	100% Once a month 20%	Monthly Within two weeks after close of quarter To be completed within week three and four after close of quarter



Activity	Responsibility	Risk	Time-lapse	Internal controls	Audit procedures	Sample method/methodology	Timeframe for audit procedures
Contractor to generate signed fortnightly payment register and provide to Project Manager	Contractor	Incorrect information compiled	Every fortnight from beginning of month	Sign-off by contractor	Public Body internal auditors: 1) to test control of sign-off of payment register 2) to conduct tests to ensure information on payment register agrees with attendance register 3) test payment register to ensure each contract worker signed as proof that payment were received 4) conduct tests to ensure rate of pay falls within the required parameters 5) include results in audit report to be issued two weeks after the end of the quarter. DPW Internal audit: 1) to test control of sign-off of attendance register 2) to perform detail testing on supporting documentation dependent on risk assessment taking Public Body internal auditors' audit work and extent of reliance into account 3) include results in audit report to be issued four weeks after the end of the quarter.	100%	Within two weeks after close of quarter
		Invalid information compiled				100%	
		Payment to fictitious workers				100%	
						50%	
Contractor to sign-off on all registers to Project Manager	Contractor	Incorrect information compiled Invalid information compiled	Once a month	Sign-off by contractor	See audit procedures above Identify the registers relevant for audit purposes		To be completed within week three and four after close of quarter
Contractor to capture information and submit to Public Body and TA							
Project Manager to submit information electronically to PB	Project Manager	Incorrect or incomplete information loaded Invalid information	Continuous -Weekly	Sign off by consultant MIS controls	Public Body internal auditors: 1) to test control of sign-off 2) to conduct tests to ensure information on MIS agrees with supporting information 3) include results in audit report to be issued two weeks after the end of the	100%	Within two weeks after close of quarter

Activity	Responsibility	Risk	Time-lapse	Internal controls	Audit procedures	Sample method/methodology	Timeframe for audit procedures
		loaded			quarter. DPW Internal audit: 1) to test control of sign-off 2) to conduct tests to ensure information on MIS agrees with supporting information. 3) Include results in audit report to be issued four weeks after the end of the quarter.		To be completed within week three and four after close of quarter
Project Manager to generate payment certificate at the end of the month and submit to public body – outputs and expenditure data for progress report	Project Manager	Incorrect , invalid or incomplete information	End of month	Sign-off by Project Manager Sign off by contractor Sign off by Public Body	Public Body internal auditors: 1) to test control of sign-off 2) include results in audit report to be issued two weeks after the end of the quarter DPW Internal audit: 1) to test control of sign-off 2) include results in audit report to be issued four weeks after the end of the quarter	100%	To be completed within two weeks after close of quarter To be completed within week three and four after close of quarter
Project Manager to sign- off and distribute copies to: i) contractor, ii) own record, iii) public body	Project Manager	Incorrect , invalid or incomplete information	End of month	Sign-off by Project Manager	Refer audit procedures above		

4.4.4 Sampling

Appropriate means for selecting items for testing to gather sufficient appropriate audit evidence to meet the objectives for the audit procedures must be applied. Results of the tests on the sample must be extrapolated over the population as a whole.

4.5 Communicating results

4.5.1 Monthly audit reporting

The Internal Audit unit of public bodies must report to DPW Internal Audit on a monthly basis - two weeks after the close of every month, based on audit procedures completed, on, *inter alia*, the following:

- Any non-compliance to the DORA requirements, the Incentive Grant Agreement, the Incentive Grant Manual and any other relevant documentation issued by DPW in terms of the Incentive Grant. The compliance checklist included in the EPWP Incentive Grant Manual must be used as a basis to identify any non-compliance.
- Any weaknesses in controls, procedures, information collated and reported or problematic outcomes for the month.

The template to be used for the monthly reports by Public Bodies:

Headings to be covered	Example
Title	"Public Body Name" Internal Audit Report on the EPWP Incentive Grant for the month of March 2009
Addressee	The report should be addressed to Management with copies to DPW Internal Audit
Scope	The audit procedures performed should be described
Audit findings	Any non-compliance, weaknesses in controls, inaccurate and incomplete information reported with an indication of the effect/impact, recommendations and management comments.
Repeat findings	
Significant risks identified	
Other matters for attention	
Conclusion	
Sign-off report	Report to be signed off by Chief Internal Auditor indicating the date of sign-off

4.5.2 Quarterly audit reporting

The Internal Audit unit of public bodies must report to DPW Internal Audit on a quarterly basis - two weeks after the close of every quarter, on, *inter alia*, the following:

- Purpose, authority and responsibility of Public Body Internal Audit
- Objectives and scope of the audit work completed for the quarter
- Based on audit procedures completed, the audit findings/results including any weaknesses in controls, procedures, information collated and reported or problematic outcomes for the quarter
- Quantification of errors extrapolated over population
- Repeat findings with reference to findings reported in previous months or quarters by Internal Audit and management actions were required but not yet implemented
- Significant risk exposures
- Conclusion based on appropriate analysis and evaluations
- Recommendations and action plans
- Other matters needed or requested

Communication must be accurate, objective, clear, concise, constructive, complete and timely

The template to be used for the quarterly reports by Public Bodies:

Headings to be covered	Example
Title	"Public Body Name" Internal Audit Report on the EPWP Incentive Grant for the quarter ending 30 June 2009
Addressee	The report should be addressed to Management with copies to DPW Internal Audit
Accountability statement	Indicating what the accountability of the various parties are including Management and the Public Body Internal Audit
Scope	The audit procedures performed should be described
Audit findings	Any non-compliance, weaknesses in controls, inaccurate and incomplete information reported with an indication of the effect/impact, recommendations and management comments.

Headings to be covered	Example
Extrapolation of errors	Based on errors find in information reported the error extrapolated over the population if relevant
Repeat findings	
Significant risks identified	
Other matters for attention	
Conclusion	
Sign-off report	Report to be signed off by Chief Internal Auditor indicating the date of sign-off

DPW Internal Audit must obtain confirmation from Provincial Treasuries on a quarterly basis that the incentive has been correctly disbursed.

4.5.3 Annual Reporting

Public Bodies Internal Audit must report to DPW Internal Audit on an annual basis - two weeks after the close of the financial year - on, *inter alia*, the following:

- (a) Purpose, authority and responsibility
- (b) Objectives and scope of work completed for the quarter
- (c) Based on audit procedures completed, any weaknesses in controls, procedures, information collated and reported or problematic outcomes for the quarter.
- (d) Quantification of errors extrapolated over population
- (e) Repeat findings
- (f) Significant risk exposures
- (g) Conclusion based on appropriate analysis and evaluations
- (h) Recommendations and action plans
- (i) Other matters needed or requested

The template to be used for the annual reports by Public Bodies:

Headings to be covered	Example
Title	"Public Body Name" Internal Audit Report on the EPWP Incentive Grant for the year ending March 2010
Addressee	The report should be addressed to Management with copies to DPW Internal Audit
Accountability statement	Indicating what the accountability of the varies parties are including Management and the Public Body Internal Audit
Scope	The audit procedures performed should be described
Audit findings	Any non- compliance, weaknesses in controls, inaccurate and incomplete information reported with an indication of the effect/impact, recommendations and management comments.
Extrapolation of errors	Based on errors find in information reported the error extrapolated over the population if relevant
Repeat findings	
Significant risks identified	
Other matters for attention	
Conclusion	
Sign-off report	Report to be signed off by Chief Internal Auditor indicating the date of sign-off

Reporting to ensure compliance with the DORA, Section 13, should take place and DPW Internal Audit must review the information provided to ensure compliance with requirements and information reported can be substantiated by supporting evidence. Information that need to be included:

- (a) the total amount of all allocations received
- (b) the total amount of actual expenditure on all allocations except Schedule 4 allocations
- (c) certification that all transfers in terms of DORA to the province were deposited into the primary bank account of the province or, where appropriate, into the corporation for public deposits account of a province.
- (d) the extent the province met the conditions provided for in the framework and complied with the provisions of the DORA

- (e) the steps taken to deal with non-compliance with the conditions provided for in the framework of such an allocation and the provisions of the DORA
- (f) the extent to which the objectives and outputs of the allocation were achieved
- (g) contain such other information as the National Treasury may determine.

4.6 Follow-up procedures

During the audit process, the Internal Auditors of the public body must complete follow-up procedures to monitor and ensure actions have been effectively implemented or that senior management accepted the risk of not taking action. Follow-up procedures will form part of the audit procedures performed every quarter and has to be included as part of the repeat findings of the quarterly and annual Public Body internal audit reports.

4.7 Internal audit representations

As part of the audit procedures it is required of the Internal Audit of Public Bodies to make quarterly and yearly representations by completion and sign-off of the compliance checklist.

4.8 Adherence to timelines

Public Bodies need to strictly comply with prescribed timelines indicated in section 4.4.3.

5. Standards of Internal Audit Practice

The Internal Audit Function must meet the Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors (refer to www.theiia.org).

6. Non-compliance to Audit Regulations

Any non-compliance to the Audit Regulations in fact or appearance must immediately be reported, including the details of non-compliance to DPW Internal Audit, Chief Executive Auditor.