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Provinsiale Tesourie

Enquiries : Mr XC Shongwe Ext 4553  
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## PROVINCIAL TREASURY CIRCULAR NO. 6 OF 2019

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**TO:**

**THE ACTING MUNICIPAL MANAGER: PIXLEY KA ISAKA SEME LOCAL MUNICIPALITY (MR P THWALA)**  
**THE MUNICIPAL MANAGER: STEVE TSHWETE LOCAL MUNICIPALITY (MR B KHENISA)**  
**THE MUNICIPAL MANAGER: EMAKHAZENI LOCAL MUNICIPALITY (MS EK TSHABALALA)**  
**THE MUNICIPAL MANAGER: THEMBSILE HANI LOCAL MUNICIPALITY (MR ON NKOSI)**  
**THE ACTING MUNICIPAL MANAGER: DR JS MOROKA LOCAL MUNICIPALITY (MR MF MONKE)**  
**THE MUNICIPAL MANAGER: BUSHBUCKRIDGE LOCAL MUNICIPALITY (MS CN NKUNA)**  
**THE MUNICIPAL MANAGER: CITY OF MBOMBELA MUNICIPALITY (MR N DIAMOND)**  
**THE MUNICIPAL MANAGER: NKOMAZI LOCAL MUNICIPALITY (MR MD NGWENYA)**  
**THE ACTING MUNICIPAL MANAGER: MSUKALIGWA LOCAL MUNICIPALITY (MS GJ MAJOLA)**  
**THE ACTING MUNICIPAL MANAGER: THABA CHWEU LOCAL MUNICIPALITY (MS S MATSI)**  
**THE MUNICIPAL MANAGER: EHLANZENI DISTRICT MUNICIPALITY (MR FS SIBOZA)**  
**THE ACTING MUNICIPAL MANAGER: VICTOR KHANYE LOCAL MUNICIPALITY (MS TS MATLADI)**  
**THE MUNICIPAL MANAGER: EMALAHLENI LOCAL MUNICIPALITY (MR H MAISELA)**  
**THE MUNICIPAL MANAGER: NKANGALA DISTRICT MUNICIPALITY (MS MM SKOSANA)**  
**THE MUNICIPAL MANAGER: CHIEF ALBERT LUTHULI LOCAL MUNICIPALITY (MR MA DLAMINI)**  
**THE MUNICIPAL MANAGER: DIPALESENG LOCAL MUNICIPALITY (MR IP MUTSHINYALI)**  
**THE MUNICIPAL MANAGER: GOVAN MBEKI LOCAL MUNICIPALITY (MR SF MNDEBELE)**  
**THE MUNICIPAL MANAGER: LEKWA LOCAL MUNICIPALITY (MR G MHLONGO NTSHANGASE)**  
**THE MUNICIPAL MANAGER: MKHONDO LOCAL MUNICIPALITY (MR MM KUNENE)**  
**THE MUNICIPAL MANAGER: GERT SIBANDE DISTRICT MUNICIPALITY (MR CA HABILE)**

**THE HEAD: CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR P NYONI)**

**THE CHIEF DIRECTORATE: SUSTAINABLE RESOURCE MANAGEMENT**  
**THE CHIEF DIRECTORATE: PROVINCIAL ASSETS AND LIABILITIES MANAGEMENT**  
**THE CHIEF DIRECTORATE: FINANCIAL GOVERNANCE**

## UPGRADING FROM MANUAL AUDITING TO SYSTEM AUDITING

### 1. Background

Provincial Treasury held a Provincial Internal Audit Forum on 7 December 2018 at Gert Sibande District Municipality where Internal Auditors of Municipalities discussed the fact that in order to add more value and to provide efficient and effective recommendations, all Municipalities should work towards a standardized Internal Audit methodology.

In order to perform effective and efficient internal audit processes, Internal Auditors resolved that it would add value to perform audits systematically as it will save time and ensure an effective record keeping system. It will also be easy to share best practices with other Municipalities that are not in the Province, as most of them are using automated audit systems.

In the current digital age, manual/random audits are no longer suitable. The new and pending regulations emerging from an array of laws have challenged internal audit and compliance professionals to meet increasing information requests and compliance requirements with their existing resources.

In order to effectively meet these increasing demands technology-enabled auditing tools and processes are essential. An automated audit management system makes it easy to manage any type of audit activity, data and process. Regulated institutions are increasingly using automated audit management systems to facilitate all audit-related tasks and activities. Thus, maximizing their effectiveness while managing costs and streamlining their audit process without sacrificing flexibility.

Standard 1220.A2 of the Internal Standards for the Professional Practice of Internal Auditing (Due Professional Care), states that in exercising due professional care internal auditors must consider the use of technology-based audits and other data analysis techniques.

### 2. The benefits provided by Internal Auditors

- a) Advise the Accounting Officer and Management on the implementation of matters relating to internal audits
- b) Advise the Accounting Officer and Management on the implementation of matters relating to internal controls
- c) Advise the Accounting Officer and Management on the implementation of matters relating to risk and risk management
- d) Ensure effective organizational performance management and accountability
- e) Assess and make appropriate recommendations to improve the organization's governance processes
- f) Promote appropriate ethics and values within the organization
- g) Coordinating the activities of, and communicating information among external and internal auditors, other assurance providers and management.

**3. The benefits of an automated audit system**

- a) Supports the organization's governance and risk management policies
- b) Dramatically reduces the time and effort involved in preparing for and conducting audits
- c) Improves the quality and effectiveness of audit processes
- d) Increases audit department's execution and monitoring capacity
- e) Simplifies the day-to-day work by standardizing methods and automating repetitive tasks – thereby boosting the performance and effectiveness of the entire auditing process
- f) Enhances visibility and facilitates smarter and faster decision making

**4. Estimated Costs for automated audit system**

According to the available systems currently in the market, the estimated cost should not exceed the following amounts:

- a) License Fee = R 18,000.00 (excl. VAT) per 1 License for 1<sup>st</sup> year
- b) Estimated Renewal for 1 License per year = R 3,852.00 (excl. VAT)
- c) Installation: 1½ Days @ R 19,000.00 / day = R 28,500.00 (excl. VAT)
- d) Project Template Configuration: 2½ Days @ R 19,000.00 / day = R 47,500.00 (excl. VAT)
- e) Administrator Training Course ½ Day = R 9,500.00 (excl. VAT)
- f) Training Course: 2 Days = R 38,000.00 (excl. VAT)
- g) On the Job Training - Going Live Assistance - 1 Day = R 19,000.00 (excl. VAT)
- h) Maintenance fees are based on 20% of the original license fee adjusted for annual CPI movements, and are charged from year 2 onwards.

**5. Provincial Treasury Intervention**

The Provincial Treasury Internal Audit Unit will be available to assist with the automated audit system specifications and the Bid processes in order to procure a system that is in line with the Institute of Internal Audit Standards and Section 165 of the Municipal Finance Management Act, No.56 of 2003.

In light of the above, all Municipalities that are still using manual internal audit systems are requested to consider automating the Internal Audit Function.

In terms of Section 5 of the Municipal Finance Management Act, No. 56 of 2003 (MFMA), Provincial Treasury performs a monitoring role. In order to enable the Provincial Treasury to monitor the Internal Audit Function in the Province, your Municipality is therefore requested to submit the plan to acquire an internal audit system by **29 March 2019**.

Submissions should be forwarded to [mndawebe@mpg.gov.za](mailto:mndawebe@mpg.gov.za) or [mdseale@mpq.gov.za](mailto:mdseale@mpq.gov.za).

Your co-operation in this regard is appreciated.

Regards

  
**MS GUGU MASHITENG**  
**ACTING HEAD: PROVINCIAL TREASURY**  
**DATE: 28/10/2019**