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PROVINCIAL TREASURY CIRCULAR NO. 14 OF 2025

**TO:
ALL INTERNAL AUDITORS**

SUBJECT: GUIDANCE ON EVALUATION AND ENHANCING INTERNAL CONTROL SYSTEMS

1. PURPOSE

This Circular aims to provide clear direction to all internal auditors regarding the evaluation and enhancement of internal controls within Provincial Departments, Public Entities and Municipalities.

2. BACKGROUND

Section 38 and 51 of the Public Finance Management Act, No. 1 of 1999, requires that the accounting officer must ensure that a Department, Public Entity maintains effective, efficient and transparent systems of financial and risk management, internal controls and systems of internal audit under control of an audit committee.

In terms of Section 166 of the Municipal Finance Management Act, an Audit Committee is an independent advisory body which must advise the municipal council, the political office-bearers, the accounting officer and the management staff of the Municipality on matters relating to:

- i. internal financial control and internal audits;
- ii. risk management;
- iii. accounting policies;
- iv. the adequacy, reliability and accuracy of financial reporting and information;
- v. performance management;
- vi. effective governance;
- vii. compliance with the Act, the annual Division of Revenue Act and any and other applicable legislation;

- viii. performance evaluation;
- ix. any other issues referred to it by the municipality or municipal entity

3. DISCUSSION

Internal Auditors need to review controls within their respective organizations to mitigate risks, ensure compliance with regulations, improve the accuracy of financial reporting, enhance operational efficiency, and provide greater confidence to stakeholders by identifying and addressing potential issues before they become significant problems; essentially, strong controls help protect assets, prevent fraud, and facilitate better decision-making by management.

An internal auditor plays a critical role in reviewing internal controls by assessing their effectiveness, identifying weaknesses, and recommending improvements by:

a. Conducting a Thorough Risk Assessment

- Identify key risks that could impact the organization's objectives.
- Evaluate existing controls to determine their effectiveness.
- Prioritize high-risk areas for review and improvement.

b. Performing Regular Audits and Reviews

- Conduct routine and surprise audits to test control effectiveness.
- Assess compliance with policies, procedures, and regulations.
- Identify gaps or inefficiencies in the control environment.

c. Enhancing Policies and Procedures

- Review and update internal control policies regularly.
- Ensure policies align with industry best practices and regulatory requirements.
- Recommend process improvements to reduce errors and fraud.

d. Strengthening Segregation of Duties

- Ensure critical tasks are divided among multiple employees to prevent fraud.
- Review access rights and user permissions in financial and operational systems.
- Identify and address conflicts of interest.

e. Improving Documentation and Record-Keeping

- Ensure all transactions and processes are properly documented.
- Maintain audit trails for transparency and accountability
- Implement automated tracking systems for better monitoring.

f. Utilizing Data Analytics and Technology

- Use automated tools to detect anomalies and potential fraud.
- Leverage data analytics to identify trends and control weaknesses.
- Implement continuous monitoring programs for real-time insights.

g. Enhancing Employee Awareness and Training

- Conduct regular training on internal controls, compliance, and fraud prevention.
- Educate employees on their role in maintaining a strong control environment.
- Encourage a culture of ethical behavior and accountability.

h. Establishing Strong Communication Channels

- Maintain open communication with management and key stakeholders.
- Provide clear and actionable recommendations for control improvements.
- Encourage whistleblowing and anonymous reporting of control breaches.

i. Monitoring Corrective Actions

- Track and follow up on audit recommendations to ensure implementation.

- Assess whether corrective actions effectively mitigate risks.
- Continuously reassess and refine controls as needed.

j. Promoting a Culture of Continuous Improvement

- Encourage management to proactively strengthen controls.
- Stay updated on industry trends and regulatory changes.
- Benchmark against best practices and implement improvements.

By proactively identifying risks, strengthening policies, and leveraging technology, an internal auditor can significantly enhance the organization's internal control environment.

The Internal Auditors are mainly focusing on evaluating an organization's internal controls, processes and operations, while external auditors focusses on verifying the accuracy and fairness of financial statements or external stakeholders.

This Circular is aimed at providing clear understanding to all internal Auditors in terms of their roles which is to provide independent assurance to management on the effectiveness of an organization's risk management, governance and internal controls.



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HEAD: PROVINCIAL TREASURY
DATE: 20-03-2025