PFMA: The critical role of internal audit and internal control function in improving audit outcomes and to enhance preventative controls aimed to safeguard against corruption taking place

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Chartered Institute of
Government Finance, Audit & Risk Officers

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- While significant progress has been made in improving internal controls and audit processes, poor audit outcomes and corruption continues to be a challenge in many public sector institutions in the country.

- The **combination of weak controls, lack of transparency, and inefficiencies** can open doors for fraudulent activities and misuse of public funds.

- Internal audit and internal control functions play a critical role in improving audit outcomes and enhancing preventive controls to safeguard against corruption in the public sector.

- These functions serve as **key mechanisms for promoting transparency, accountability, and efficiency in the use of public funds**.

- The fundamental objective of internal audit and internal control functions is to **strengthen governance and financial integrity.**
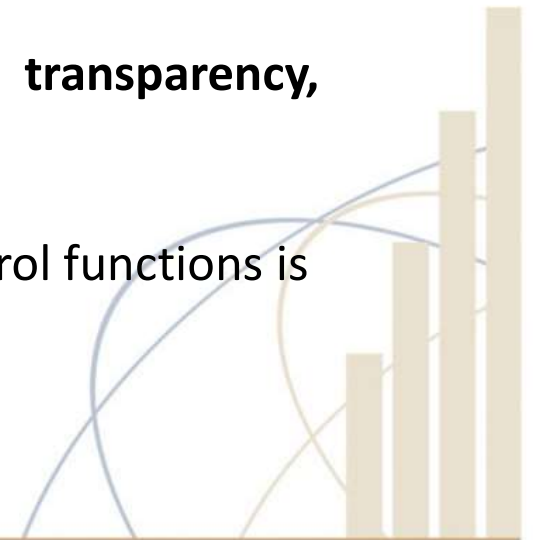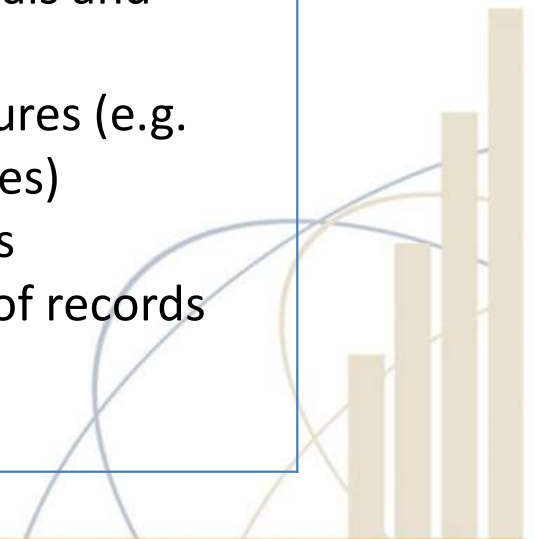
Role of Internal Audit and Internal Control Functions

	Internal Audit Function	Internal Control Function
Definition	An independent function that assesses and provides assurance on the effectiveness of risk management, internal controls, and governance processes	A set of processes, policies, and procedures designed to prevent errors, fraud, and ensure operational efficiency
Objective	Evaluates and improves the effectiveness of risk management, control, and governance	Ensures operational efficiency, financial integrity, and compliance with regulations
Responsibility	Conducts independent audits and assessments Reports to senior management and audit committees	Implemented by management and employees as part of daily operations

Role of Internal Audit and Internal Control Functions

|	Internal Audit Function	Internal Control Function
Scope	Reviews and tests internal controls, financial processes, and compliance frameworks	Embedded in all functions including finance, HR, procurement, to ensure activities follow set guidelines
Timing	Periodic assessments and audits based on risk analysis	Ongoing, continuous monitoring and enforcement of policies and procedures
Focus Areas	Risk identification and mitigation Compliance with laws and regulations Fraud detection and prevention Efficiency of internal controls	Transaction approvals and authorisation Preventative measures (e.g. segregation of duties) Safeguarding assets Ensuring accuracy of records

- The **main functions** performed by internal control cover the following areas, but may not be limited to:
  - Manage effective, efficient and transparent financial (internal) control / inspectorate measures
  - Manage Loss control
  - Manage financial and financial related systems
  - Support with the management of fraud prevention
  - Maintain financial information and knowledge management
  - Maintain governance frameworks
  - Facilitate and participate in committees, forums and oversight bodies

- **Internal control has to be able to establish and maintain a degree of independence from the other financial management activities**. internal control needs to be able to exercise **independent judgement** about its operations which permit it substantially to determine its own work programme and **express control risk opinions free from direct intervention** by line management.

- Many Departments and Entities have established an **internal control unit**, separately from the internal audit unit.

- Internal control operates as an integral part of the financial management activities in the department.

- As part of this role, it normally reports to the department's Chief Financial Officer or a delegated Finance Manager.

- The responsibility of internal control is to **identify, mitigate and manage control risks** which may hamper achievement of the Department's objective to effectively, efficiently and economically manage its financial and related resources.
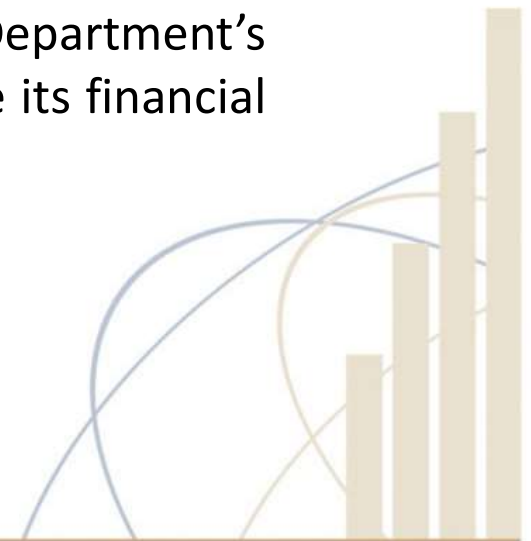
Strengthening internal controls in addressing audit outcomes

Technical Training and Competence
Accounting Standards, Legislative Frameworks, Practical training

Review Process Driven Activities
Business Processes, Policies and SOPs frequently reviewed and adapted

Review Record Management
Effective storage and retrieval, supporting documents

Level of scrutiny in operations
Logical actions, detailed review of documentation and validity

Foster a Culture of Accountability and Integrity
Ethical training, policies, recognise employees for adhering to controls

Monthly reconciliations and registers
Ability to reconcile balances and account for transactions timeously

Use Technology to Enhance Control Efficiency
Invest in technology, automated reconciliation tools, financial systems

Proactive Internal Audit Involvement
Ability to refer high risk matters to internal audit, validate high value tenders, payments

Internal audit role in improving audit outcomes

Technical Training and Competence
Accounting Standards, Legislative Frameworks, Practical training, Global Audit Standards

Test Process Driven Activities
Review and test changes in Business Processes, Policies and SOPs

Use Technology to Streamline Audit Processes and Enhance Efficiency
Audit management systems, automate routine tasks, AI-driven tools

Conduct Root Cause Analysis for Identified Issues
Understand issues, guidance in action plans

Continuous Monitoring of Controls and Compliance
Actively monitor the implementation of controls and compliance programs

Improving Audit Readiness
Mock audits, surprise testing, audit of interim financial statements

Strengthen Governance by Enhancing the Role of the Audit Committee
Effective audit committee appointments, training, agenda setting and

Utilise External Auditors' Insights to Improve Internal Audit Practices
Assess findings, review recommendations and amend methodologies and approach

Challenges in preventing corruption

- **Manual processes, outdated controls and inadequate risk assessments**
  - Weaknesses in internal control and financial systems, segregation of duties and inadequately defined policies and procedures, limited integration of internal controls between departments, ineffective risk assessments.

- **Insider fraud and procurement manipulation**
  - Corruption often operates through networks where officials, businesses and criminals collaborate to further their interests. This interconnectedness can make it difficult to root out corruption, as people may shield each other from investigation or prosecution.

- **Limited Independence of Internal Auditors**
  - Political interference, pressure or intimidation, fear of retaliation, inadequate whistle blower protection.

- **Insufficient resources and expertise**
  - Understaffing and budget constraints, lack of specialised skill, over-reliance on manual processes.

Three Lines of Defense model to address risk and corruption

1

First Line of Defense: Internal Control (Management & Staff)
Responsible for implementing daily internal controls to prevent fraud, errors, and operational risks. Manage risks actively through operational processes.

2

Second Line of Defense: Risk Management & Compliance Functions
Provide oversight, monitoring, and guidance to the first line. Enables risks to be managed properly and enforce compliance with regulations and internal policies.

Third Line of Defense: Internal Audit
Independent and objective review of both internal controls and risk management processes. Assesses effectiveness of controls, identify weaknesses, and recommend improvements.

3
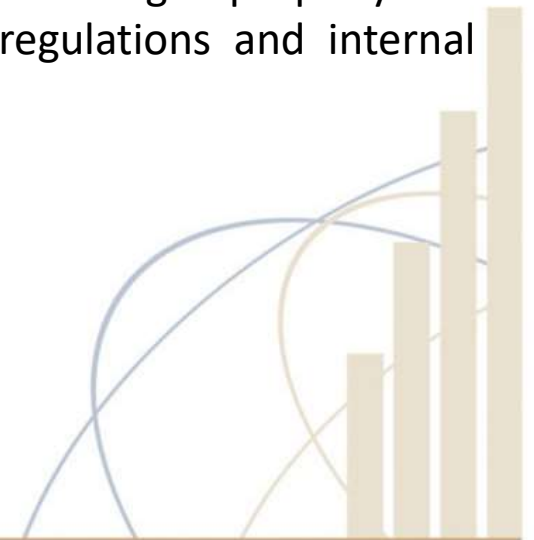
Preventative controls in addressing corruption

- **Effective Procurement Controls**
  - Automated procurement processes and evaluation checks.
  - Integrated E-Procurement Systems with Vendor Rating - vendors, contractors, and public sector suppliers are rated based on their transparency, ethical behavior, and past performance.
  - Supplier due diligence to prevent conflicts of interest, transparency, and independent oversight.

- **Whistleblower Protection and Ethical Governance**
  - Implement AI technology such as Chat Bots and encrypted data uploads which cannot be traced.
  - Ethical training and development of employees.
  - Culture shift implementation for a deeper level of responsibility.

- **AI-Powered Fraud Detection and Predictive Analytics**
  - Implement AI-driven systems that analyse large volumes of financial transactions to detect anomalies and patterns associated with fraudulent activities.
  - Use predictive analytics to assign risk scores to transactions, employees, and vendors, flagging high-risk activities for further investigation.

Preventative controls in addressing corruption

- **Blockchain for Transparent Financial Transactions**
    - Blockchain technology ensures financial transactions and procurement records cannot be altered or manipulated after approval.
    - Automate contract execution, ensuring payments are only released upon verified completion of milestones, reducing fraudulent invoicing.

- **Biometric and Behavioral Access Controls**
    - Use fingerprint or facial recognition for financial approvals to eliminate unauthorised transactions.
    - Track user behavior in financial systems (e.g., unusual login times or irregular transaction approvals) to detect insider fraud.

- **Embedded Forensic Auditing in Real-Time Transactions**
    - Deploy real-time forensic analysis tools within financial systems that automatically flag suspicious transactions.
    - Cross-check employee bank accounts, vendor lists, and payroll records for potential fraud (e.g. ghost employees or conflict of interest).

- **Dynamic Geolocation Tracking for Procurement and Service Delivery**
  - Require geotagged verification for the physical delivery of goods and services to prevent fictitious payments.
  - Track government fleet movement and fuel usage in real time to prevent unauthorised use or fuel fraud.
  - Link to performance management and validation processes throughout project implementation.

- **Digital Conflict of Interest Declarations:**
  - Require all public sector employees to submit and regularly update their digital conflict of interest declarations.
  - AI systems could cross-reference these declarations with financial transactions, contractors, or public resources, including tender submissions.

As fraud and corruption schemes evolve, public sector institutions must adopt proactive and innovative preventative controls to detect and prevent irregularities before they occur.

Traditional internal controls alone are no longer sufficient *to prevent sophisticated fraud and corruption in the public sector.*

Emerging technologies *such as AI, blockchain, biometrics, and real-time analytics can enhance preventative controls and enable proactive fraud detection.*

Integrating these innovative solutions with strong ethical governance and accountability measures will significantly strengthen anti-corruption efforts.

NOW is the time to embrace innovative thinking!

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Thank You!

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