

**THE CONTRIBUTION OF KING II REPORT IN THE
FIGHT AGAINST CORRUPTION IN THE SOUTH
AFRICAN PUBLIC SECTOR WITH SPECIAL REFERENCE
TO NATIONAL DEPARTMENTS**

BY

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ABSTRACT

The purpose of this study was to investigate the contribution of the King II Report on Corporate Governance for South Africa in the fight against fraud and corruption in the South African public sector.

Four areas of good corporate governance as recommended by the King II Report, i.e. internal audit, risk management, audit committee, and ethics (fraud prevention) have been identified for the purpose of this study. Corruption is a significant problem both in major and developing countries. Like organised crime, corruption is shaped by the lack of strength of the control measures by both private and public sector. It indicates poor governance in both private and public sector institutions. On the other hand, corporate governance relates to organizational arrangements put in place to provide an appropriate set of checks and balances.

A literature review was conducted to obtain an understanding of a number of fundamental concepts of good corporate governance as recommended by the King II Report such as; risk management, internal audit, audit committee, and ethics (fraud prevention), including their applicability to the public sector institutions. The King II Report lays down the framework for corporate governance in South Africa. The report provides guidelines on issues of financial performance, risk management, remuneration, audit committees, sustainability reporting, stakeholder interest, the balance of power and the role of directors within a business enterprise.

The empirical study made use of both quantitative and qualitative methods including literature review as well as a structured

questionnaire that was sent to 37 national departments. The targeted sample was all the Directors-General of the national departments or their delegated officials. A response rate of 78% was achieved.

The major findings of this investigation was that the majority of national government departments have taken a positive step towards the implementation of the King II report, however, a lot of work is still required to be done in order to achieve full implementation. The study recommends steps to be taken by the national departments in order to fully comply with the requirements of the King II Report and also address gaps identified by the study. Further investigations will still be required in the following areas:

- The extent of implementation of good corporate governance (King II Report) principles focusing at provincial and or local government;
- The contribution of good governance (King II Report) towards the fight against fraud and corruption in local or provincial government.

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LIST OF ACRONYMS

ACMF	African Capital Markets Forum
CACG	Commonwealth Association of Corporate Governance
CASCG	Centre for Advanced Studies in Corporate Governance
CIPE	Centre for International Private Enterprises
COSO	Committee of Sponsoring Organizations of Treadway Commission
CRSA	Control Risk Self Assessment
DPSA	Department of Public Service and Administration
GAAP	Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
EMC	Executive Management Committee
EPS	Earnings per Share
HOD	Head of Department
IDASA	Institute for Democracy in South Africa
IIA	Institute of Internal Auditors
IDRC	International Development Research Center
IFM	Institute of Finance Management
JSE	Johannesburg Securities Exchange
PFMA	Public Finance Management Act
PSC	Public Service Commission
SCOPA	Standing Committee on Public Accounts

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CHAPTER 1: INTRODUCTION

1.1. INTRODUCTION

Corruption is increasingly becoming a serious issue of concern as well as a subject for serious scientific study both locally and internationally. It has been a nuisance for socio-economic and political growth and has been the cause and consequence of decay in society for decades. Corruption is not only a disease but also a symptom. It indicates poor governance both in public administration and private businesses (Mensah, Aboagye, Addo, & Buatsi, 2003: 207). According to (Yalamov & Belev, 2003: 157), lack of transparency, discretionary power, and low accountability are considered as the main causes of corruption globally. The argument therefore is that there is a link between corporate governance and corruption, which is a direct relationship.

Corporate governance on the other hand is defined as the organizational arrangements that have been put in place to provide an appropriate set of checks and balances within which the stewards of the organization operate (Stricket, 2002: 12). The objective is to ensure that those to whom the stakeholders entrust the direction and success of the organization act in the best interest of all the stakeholders. Corporate governance is therefore, as described by the *CACG Guidelines Principles for Corporate Governance* (Commonwealth Association, 1999: 23), concerned with holding the balance between economic and social goals and between individual and communal goals. This is about leadership with integrity, responsibility and transparency.

The aim of corporate governance is to align as nearly as possible the interests of individuals, corporations and society. The impact and efficacy

of several measures intended to curb corruption have been continuously given a broader coverage. In undertaking this study, attention will be given to the extent to which the recommendations of the King II Report have been implemented, the impact of such implementations in the fight against corruption, as well as any outstanding work that still needs to be done in the South African public sector. The need for good corporate governance has been the focus of ever increasing attention during the past few years. The importance of this issue was underlined in South Africa by the introduction of the King Report on Corporate Governance which was published in 1994 followed by the King II Report of 2002. The King II Report (2002) on Corporate Governance sets the framework for corporate governance in South Africa with the guidelines regarding risk management, financial performance, remuneration and audit committees, sustainability reporting, stakeholder interest, strategy development, the balance of power and the role of directors within the organization and the society as a whole. The seven characteristics of good Corporate Governance according to the King II Report (2002:3) are discipline, transparency, independence, accountability, responsibility, fairness and social responsibility.

While it is clear that the South African public sector is mostly committed to good corporate governance, such commitment is often merely echoed for public consumption and in most public sector institutions is not translated into practical implementation of good corporate governance principles (Balila, 2005: 79). A recent survey conducted by IDASA and Afrobarometer in 2005 showed that 21% of all South Africans felt that all or most national government officials are involved in corruption (www.idasa.org.za). According to the 2006 Corruption Perception Index survey conducted by the Transparency International, South Africa is

rated 51st with a score of 4.6 which means it is perceived to have high levels of corruption. According to Balia (2005:79), corruption is one of the serious problems facing the South African public sector today.

Although government and political leaders seem to be concerned about the level of corruption, there appears to be little acknowledgement of the linkage between good corporate governance and corruption (Yalamov & Belev, 2003: 55). This study will therefore consequently attempt to offer recommendations on what further actions could still be taken to improve corporate governance in the South African Public sector as described by the King Report on Corporate Governance for South Africa – 2002.

1.2. BACKGROUND

Corporate governance in South Africa was institutionalized by the publication of the King Report on Corporate Governance (King Report 1994) in 1994. The purpose of the King Report was to promote the highest standards of corporate governance in South Africa. The original King Report went beyond the financial and regulatory aspects of the corporate governance and emphasized an integrated approach towards good governance, taking cognizance of the fundamental principles of good financial, social, ethical, and environmental practice in the interest of a wide range of stakeholders (King Committee, 2002: 5).

Subsequent to the publication of the original King Report, the King Committee considered it appropriate to revisit their initial document, and “to review and clarify their earlier proposals in the King Report 1994 for an “inclusive approach for the sustainable success of companies” (King Committee, 2002: 6). “The inclusive approach recognizes that

stakeholders such as community in which the company operates, its customers, its employees and its suppliers need to be considered when developing the strategy of the company" (King Committee, 2002: 6). The King II Report, published in March 2002 is based on the concept of "triple-bottom line" reporting, which encompass reporting on an entity's economic, environmental and social performance.

The new Code of Corporate Governance for South Africa (King II Report) was developed and this guideline is applicable to among others, listed companies with financial years commencing on or after 1 March 2002, and Public sector enterprises and agencies that fall under the Public Finance Management Act and the Local Government (King Committee, 2002: 20). The importance of corporate governance internationally in both the private business sector and the state owned enterprises is noted in the guidelines documented by the Commonwealth Association for Corporate Governance (CACG) (1999). In these guidelines, it is stated that:

" the fact is that good corporate governance practices are now becoming a necessity for every country and business enterprise and are no longer restricted to the activities of public listed corporations in advanced industrial economies" (CACG, 1999: 1).

In the UK, the awareness for corporate governance stimulated the formulation of the Cadbury (1992) and Greenbury (1995) Reports and the subsequent review of adherence to recommended codes of practice by the Hampel Report (1998).

1.3. CORPORATE GOVERNANCE IN THE PUBLIC SECTOR

The Public Finance Management Act 29 of 1999 (PFMA) supplemented by the Treasury Regulations, issued in terms of the Public Finance Management Act 29 of 1999 has legislated some key governance best practices, which have also been included in the King II Report on Corporate Governance. These include the following (PFMA, section 38):

"The accounting officer for a department, trading entity or constitutional institution must ensure that that department, trading entity or constitutional institution has and maintains:

- 1. Effective, efficient and transparent systems of financial and risk management and internal control*
- 2. A system of Internal Audit under the control and direction of an audit committee...*

"The accounting officer must facilitate a risk assessment to determine the material risks... and to evaluate the strategy for managing those risks. Such a strategy must include a fraud prevention plan. The strategy must be used to direct Internal Audit effort and priority..."

"The Internal Audit unit must prepare in consultation with and for approval by the audit committee a rolling three year Internal Audit plan based on its assessment of key risk for the institution, having regard to its current operations, those proposed in its strategic plan and its risk management strategy;"

The above "best practices" and adherence to it, does not mean application of the King II Report on Corporate Governance. The fact that it appears in the King II Report, does not make it a requirement for the public service.

The King II Report places the responsibility squarely on the Accounting Officer of a national department to identify key risk areas of the business and constantly monitor its key performance indicators in the department. The accounting officer must also disclose details of its risk management in the annual report and declare that it takes full responsibility for this. A formal risk assessment should be done at least once a year. According to the National Treasury (2005:7), in the public sector, executive management is tasked with the same responsibilities as well as ensuring that mechanisms are in place to ensure good corporate governance in terms of:

- Effective evaluation of the department's performance;
- Ensuring the department and staff act lawfully and comply with the principles of Public Finance Management Act and other legislation and regulations;
- Managing the department's risk exposures; and
- Stakeholder rights are not infringed.

However, despite the above-mentioned developments, according to Transparency International's corruption perception index 2005 (see www.tisa.org.za); South Africa has remained one of the developing countries with a serious problem of corruption. According to the *Country Corruption Assessment Report of 2003* by the Department of Public Service and Administration & United Nations-Office of Drugs and Crime, corruption has remained the biggest enemy of public service delivery. Good corporate governance is seen as necessary to ensure that

corruption is rooted out. This is because corporate governance sets up a system where rules are reinforced not only by written regulations but also by moral standards of business ethics and by responsible corporate behaviour. According to (Ramaite: 1999: 35), establishing good corporate governance does not only set up a means for combating corruption but goes far beyond that.

1.4. ACCOUNTABILITY PROCESS IN THE PUBLIC SECTOR

Accountability and responsibility in the public sector resides with management and government provides them with the power necessary to manage their departments to achieve the required outcomes (The National Treasury, 2005: 17). These required outcomes include: effective risk management, effective delivery of public services, department compliance with the various requirements and keeping the Minister informed (See Appendix 4).

1.5. PROBLEM STATEMENT

The Institute of Directors of South Africa appointed a committee under the chairmanship of Mervin King SC, in 1992 to conduct an investigation and report on corporate governance (King Committee, 2002:5). Tempelhoff (2003:6) is of the opinion that in the wake of the Enron scandal in the United States of America and the public outcry over the South African government's arms procurement deals, it is evident that principled concerns driven by approaches to corporate governance are necessary.

According to Loubser (2005: 135), the King Report on Corporate Governance for South Africa is an attempt to keep standards of governance applicable in South Africa current with changing circumstances, both internationally and at national level. Loubser (2005: 136) indicated that the publication of this report was a reflection of the business community as well as public sector's desire to ensure that local governance standards keep pace with the rest of the world and serve as a contribution to the country's ongoing development.

The problem that prompted the study was due to a challenging perception existing within the public service that they do not have to comply entirely with the recommendations of the King II Report with regard to implementing principles of good corporate governance. The King II Report is considered as the guidelines set for private sector business entities and the legislative framework such as the Public Finance Management Act 29 of 1999 (PFMA) , Treasury Regulations, 2001, issued in terms of the PFMA, and Generally Recognized Accounting Practice (GRAP) are seen to be sufficient regulations. However, the Public Finance Management Act 29 of 1999 and Treasury Regulations, 2001, legislate some of the important good governance principles such as internal controls, internal audit, risk management, and audit committees. Section 38 of the Public Finance Management Act provides that "the accounting officer for a department must ensure that the department has and maintains effective, efficient and transparent systems of financial and risk management and internal control; a system of internal audit under the control of an audit committee." Treasury Regulations, 2001, Section 3.2.1 provides that "the accounting officer must ensure that the risk assessment is conducted regularly to identify emerging risks of the

institution.” Section 3.2.1 of these regulations provides further that each department must have an internal audit function.

Thus, the focus is on the extent to which the recommendations of the King II Report on Corporate Governance for South Africa have been implemented in the national departments of the South African public sector, although not legally required to do so. From the above overview emerges the research question:

“To what extent has the King II Report on Corporate Governance for South Africa been implemented in the national departments of the South African public service?”

1.6. RESEARCH OBJECTIVES

In order to obtain an answer to the research question, the following objectives are set for this research:

- (I). To establish the extent of implementation of the recommendations of the King II Report on Corporate Governance for South Africa in the public sector focusing on national departments.
- (II). To establish if there is still some work that needs to be done by the authorities in these national departments with regard to issues of corporate governance.
- (III). To determine how the implementation of the King II Report on Corporate Governance for South Africa in 2002 has contributed to

the fight against corruption in the South African Public Sector with specific focus on national departments.

1.7. RESEARCH METHODOLOGY

A literature study and a questionnaire will be used to conduct the research for the purpose of this study.

1.7.1. Literature Study

This study endeavors to determine the extent of implementation of the recommendations of the King II Report on Corporate Governance for South Africa in the Public Service and what work is still required to be done with regard to good governance.

Neuman (1997: 328) asserts that qualitative data is empirical since it involves documenting real events, recording what people say, observing specific behaviours, studying written documents and examining visual images. For qualitative researchers the central issues are not how to convert qualitative data into reliable or objective numbers, rather they are concerned about the accessibility of other cultures, the relativity of people accounts of their social worlds and the relation between sociological descriptions and the people's conceptions of their actions (Neuman, 1997: 328).

On the other hand quantitative research generates numerical data or data that can be converted into numbers (Mouton, 2001: 59). According to Hicks (2004: 78), quantitative responses are easily aggregated for analysis because they systematic and easily presented in a short space

of time. Qualitative research relies largely on the interpretive and critical approaches to social science. The qualitative paradigm is concerned with an understanding of human behaviour from the participant's own frame of reference. The qualitative approach stresses the subjective aspects of human activity by focusing on the meaning rather than the measurement of social phenomena (Hussey, 1997: 53). The research method used under this approach seeks to describe, translate and come to terms with the meaning and not the frequency of certain more or less naturally occurring phenomena in the social world.

Irrespective of the style of social research adopted, researchers try to avoid the pitfalls in the process by systematically gathering data and by comparing, analyzing and interpreting that particular data. If a researcher understands both styles, i.e. the quantitative and the qualitative approaches, it can only enhance the range of the research since the two paradigms can obviously complement one another. However, given that people conduct research for various reasons, researchers may want to favour one approach over the other.

This research used quantitative and qualitative methodology including literature review as well as a structured questionnaire. A literature review on the subject of corporate governance including the focus on the public sector will be examined. The literature used will encompass not only a review of contributions by South African authors but also by international authors that are specialists in the field of corporate governance.

The literature review will comprise books, articles, official documentation of the South African public sector, Acts, White Papers, Green Papers and will be used as sources for this work. Computer searches for relevant

materials have been undertaken at the library of North West University in Potchefstroom, University of South Africa in Pretoria and University of Pretoria in Pretoria. This literature review will create the theoretical basis for the dissertation from which empirical interpretations will be developed through questionnaires to be distributed to various employees within the national departments.

1.7.2. Empirical Study

Government has a range of institutions that render services to its citizens. These institutions are generally referred to as the public sector and range from national and provincial government departments, to constitutional institutions, and national and provincial public entities. By the end of March 2006, the public service had 1 045 412 people in its employment (see www.info.gov.za). A questionnaire was developed and distributed to the relevant sources within these national departments. In particular, officials targeted for this study were the Directors-General of these national departments. The questionnaire was sent to these officials within the 37 national government departments.

1.8. STRUCTURE OF THE REPORT

The various sections of this report are organized as follows: Chapter one serves as an introduction and states the aims and purpose of the entire study, the problem statement, research objectives and questions, method of research. The concepts are also defined in this chapter. This chapter continues by further providing a discussion of the background to the public sector corporate governance as well as the historical background to corruption in South Africa.

Chapter two provides a literature review on the subject of corporate governance and specifically the recommendations of the King II Report.

Chapter three will deal with the methodology used to obtain data serving as a basis for this study as well as discussing the results of the investigation and interpretations on the implementation of the King II Report. The results will cover responses received from public service staff and their perceptions with regard to the implementation of the King II Report in their departments.

Chapter four is a conclusion to the preceding chapters and answers the research questions posed in the problem statement in Chapter 1. The study will then conclude by making recommendations and suggest areas of further research.

1.9. SUMMARY AND CONCLUSION

The main aim of the chapter was to introduce the reader to the study. It consists of an introduction and background to the study, and sets out the problem statement, research objectives and questions. The chapter has also provided some insight into the methodological approach that is to be followed in pursuit of the finalization of the objectives of the dissertation.

In the following chapter the literature review on corporate governance will be performed. The various principles of good corporate governance will be discussed as well as providing a background on the public service.

CHAPTER 2: LITERATURE REVIEW

2.1. INTRODUCTION

This chapter will review the literature on Corporate Governance principles as well as the background on the South African public sector. The importance of the literature study is to gather relevant information that has been published and also to gain theoretical knowledge of the research subject.

The King II Report on corporate governance lays down the framework for corporate governance in South Africa. This report provides guidelines regarding financial performance, risk management, remuneration, audit committees, sustainability reporting, stakeholder interest, the balance of power and the role of directors within a business enterprise.

Good governance principles emphasize a shift from a single bottom line (that is profit) to what is termed in the business environment as "triple-bottom-line" reporting or accountability on financial, social and environmental issues. In the words of the King Committee: *"... successful governance in the world in the 21st century requires companies to adopt an inclusive and not exclusive approach. The company must be open to institutional activism and there must be greater emphasis on the sustainable or non-financial aspects of its performance. Accounting officers must apply the test of fairness, accountability, responsibility and transparency to all acts or omissions and be accountable to the company but also responsive towards the company's identified stakeholders. The correct balance between conformance with governance principles and performance in an entrepreneurial market economy must be found, but this will be specific to each company"* (King Committee, 2002:19). This

means that performance of a business entity is measured in terms of financial, social, and environmental criteria (Swilling, 2002:23).

Corporate governance is concerned with the organizational arrangements that have been put in place to provide an appropriate set of checks and balances within which the stewards of the organization operate. The objective is mainly to ensure that those to whom stakeholders entrust the direction and success of the organization act in the best interest of these stakeholders. These individuals entrusted with the managing and leadership of the organization should have integrity, responsibility and transparency.

The seven characteristics of good corporate governance according to the King II Report on Corporate Governance (King Committee, 2002: 10) are discipline, transparency, independence, accountability, responsibility, fairness, and social responsibility. These principles are mostly not financially related and therefore mostly not considered by individuals entrusted with managing organizations as that important, instead they are more concerned with the financial issues such as earnings per share (EPS), dividends paid, cash flow and return on investments (ROI).

2.2. THE DEFINITION OF CORPORATE GOVERNANCE

According to the King II Report of 2002, corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals (King Committee, 2002: 5). The King Committee on Corporate Governance was formed in 1992 under the auspices of the Institute of Directors, to consider corporate governance, of increasing interest around the world in the context of

South Africa. Corporate governance in South Africa was institutionalized by the publication of the King Report on corporate Governance (King Report: 1994) in November 1994.

The purpose of the King Report of 1994 was to promote the highest standards of corporate governance in South Africa. The King II Report on corporate governance of 2002 (King II Report) was released on 26 March 2002 and enhanced the 1994 King Report. The objective of King II Report was to further provide guidance on entities to determine their level of adherence to good corporate governance.

The King II Report on corporate governance for South Africa was introduced shortly after the spectacular collapse of Enron in America, a company in which apparently just about every rule of good governance had been broken (Loubser, 2005: 135). According to Loubser (2005: 135), South Africa itself had not been short of dramatic corporate collapses in the period between the first King Report in 1994 and the introduction of the King II Report in 2002. These include: Leisurenet, Macmed, Masterbond, Regal Treasury Private Bank, Parmalatt, and Saambou. Serious questions were also asked about the appropriateness of certain benefits for directors in companies such as SAA and Nedcor (Loubser, 2005: 135).

According to Loubser's arguments, the King II Report was received by many with great expectation to see how some serious corporate governance issues that may have contributed to or even caused the corporate failures, as mentioned above, were dealt with, and how it was suggested that future unpleasant surprises to stakeholders could be prevented (Loubser, 2005: 135).

2.3. BACKGROUND ON THE SOUTH AFRICAN PUBLIC SECTOR.

Government refers to the body or bodies responsible for governing the State. In South Africa these bodies refer to the political executive, namely the President and his/her Cabinet at the national level; and Premiers and Executive Councils at the provincial level. According to the constitution of the Republic of South Africa, 1996, South Africa is one sovereign, democratic state with the division of power between executive, legislative and judicial authorities.

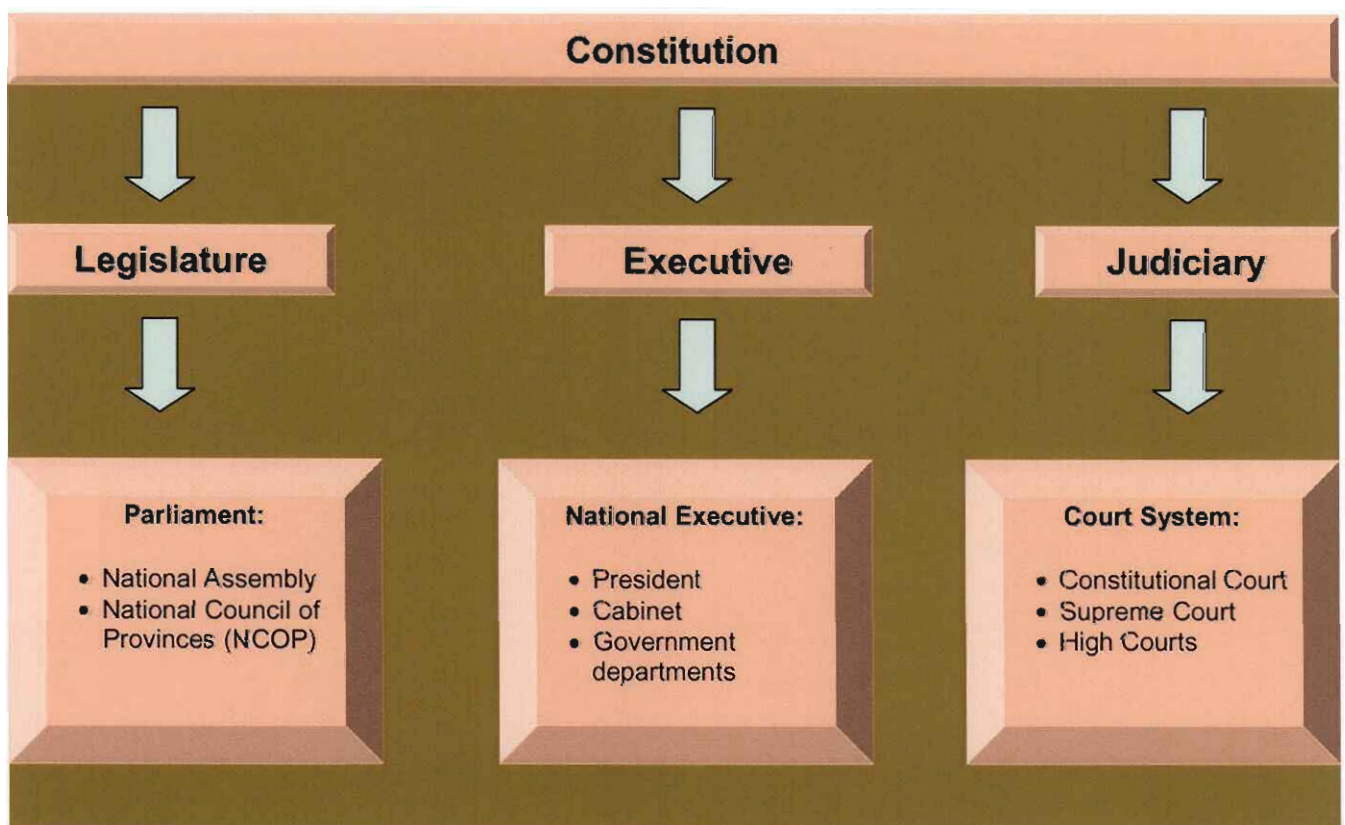
The government of South Africa is divided into three spheres. These are national, provincial and local spheres of government. National government is responsible for policy formulation, developing national standards and norms, as well as rules and regulations. Exclusive functional areas for provinces include ambulance services, provincial planning, provincial cultural matters, provincial roads and traffic. Local governments take care of local government matters which include local amenities, markets, municipal abattoirs, municipal roads, and street trading (Department of Public Service and Administration (DPSA), 2003: 147).

There are 37 National departments that have Cabinet Ministers as political heads and Directors-General as administrative heads and referred to as Accounting Officers in terms of Public Finance Management Act 29 of 1999.

2.3.1. Accountability and Responsibility.

Members of the Cabinet are collectively and individually accountable to Parliament for the way in which they exercise their duties and perform their functions as indicated by the structure depicted in Figure 2.1. In addition cabinet can, collectively as a body, be held accountable for government policy in general. However, an individual Minister could be held accountable for the way in which a particular policy for which he/she is responsible has been carried out (DPSA, 2003: 151).

Figure 2.1: Three Spheres of South African Government.



Source: The Department of Public Service and Administration, 2003: 81.

2.3.2. APPLICABILITY OF THE KING II REPORT ON THE PUBLIC SECTOR.

King Committee (2002: 20) prescribes that the following business enterprises should comply with the requirements of the Code of Corporate Practices and Conduct:

- All companies with securities listed on the Johannesburg Securities Exchange South Africa (King Committee, 2002:20).
- Banks, financial and insurance entities as defined in the various legislation regulating the South African financial services sector (King Committee, 2002:20).
- Public sector enterprises and agencies that fall under the Public Finance Management Act 29 of 1999, and the Local Government Municipal Finance Management Act including any department of state or administration in the national, provincial or local sphere of government or any other functionary or institution:
 - exercising a power or performing a function in terms of the Constitution or a provincial constitution; or
 - exercising a public power or performing a public function in terms of any legislation, but not including a court or a judicial officer, unless prescribed by legislation (King Committee, 2002:20).

The King II Report of 2002 emphasizes the importance of striking a balance between performance and conformance. In a corporate context

this means that the exercise of management skill, expertise and flair in running business operations and creating shareholders values should be encouraged, but must be subject to appropriate checks and balances that allow for the accounting officer to ensure that management is at all times acting in the interests of the organization and the shareholders, and in the case of public sector, the interest of the public institution and those of the public (Stricket, 2002: 59).

Executive authority – *The Public Finance Management Act 29 of 1999 defines the executive authority in Section 1 as follows:*

- in relation to a national department, means the Cabinet member who is accountable to Parliament for that department;
- in relation to a provincial department, means the member of the Executive Council of a province who is accountable to the provincial legislature for that department;
- in relation to a national public entity, means the Cabinet member who is accountable to Parliament for that public entity or in whose portfolio it falls; and
- in relation to a provincial public entity, means the member of the provincial Executive Council who is accountable to the provincial legislature for that public entity or in whose portfolio it falls.

Management is accountable to the executive authority, which provides governance, guidance and oversight. By selecting management, the executive authority has a major role in defining what it expects in

integrity and ethical values and can confirm its expectations through oversight activities. Similarly, by reserving authority in certain key decisions, the executive authority plays a role in setting strategy, formulating high-level objectives and broad-based resource allocation. According to the National Treasury (2006: 7), the executive authority is part of the control environment and must have the requisite composition and focus for risk management to be effective.

Management – The Accounting Officer is ultimately responsible for and should assume “ownership” of corporate governance. More than any other individual, the accounting officer sets the “tone at the top” that affects integrity and ethics and other factors of the control environment. In any department, the accounting officer fulfils this duty by providing leadership and direction to senior managers and reviewing the way they manage the department. Senior managers, in turn, assign responsibility for establishment of more specific management policies and procedures to personnel responsible for individual units’ functions (National Treasury, 2006:8).

In a smaller department, the influence of the accounting officer is usually more direct. In any event, in a cascading responsibility, a manager is effectively an accounting officer of his or her sphere of responsibility. Also significant are leaders of staff functions such as compliance, finance, human resources and information technology, whose monitoring and control activities cut across, as well as up and down, the operating and other units of a department (National Treasury, 2006: 8).

In the public sector, the Accounting Officer, Head of Department (HOD) or CEO for a national department, who is the administrative head of the

institution, is tasked with the responsibility for ensuring that good corporate governance principles are implemented and maintained within that department (www.gov.za). The Accounting Officer is the fundamental base of Corporate Governance within the national departments in the public sector. He/she has the absolute responsibility for the performance of the institution and is fully accountable to the political head being the Minister and the Cabinet. The Accounting Officer retains therefore full and effective control of the department and monitors management to ensure that departmental strategies are fully implemented.

The Executive Management Committee (EMC) and Audit Committee are other important structures within the national department which assist and ensure that good corporate governance is applied. Section 38 of the Public Finance Management Act 29 of 1999 puts these responsibilities on the Accounting Officer. However, in line with delegation, section 45 of the same Act allocates further responsibilities down to management and other officials as explained above.

2.4. RISK MANAGEMENT.

CIPE (2001:1) describes risk management as a term applied to a logical and systematic method of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organizations to minimize losses and maximize opportunities.

In the public sector there are so many cases where risk management is being practiced under other names, such as health and safety,

community safety, environmental management, emergency planning, budgeting and control, and so on. However, recognizing this doesn't mean that they have to fall under the umbrella of some created function called risk management. What does need to happen is that every manager at every level needs to recognize risk management as part of his or her job, to explicitly consider the risks surrounding their everyday decisions. Describing how risk management needs to be practiced on a daily basis in all operations, the King II Report (2002: 31) considers that risk management and internal control should be practiced throughout the company by all staff, and should be embedded in day-to-day activities.

CIPE (2001:2) states that good corporate governance requires that risk management be embedded in the culture of the organization. By solely having an Internal Audit function checking on risk management procedures, does not mean good governance. Organizations need to look ahead, be dynamic, respond to change and maximize business opportunities (Doherty & Horne, 2002: 317).

2.4.1. Key elements for risk management

As suggested by Hodges (2005:515), there are several key elements for successful risk management.

Vision

Vision comes from the top and is shared throughout the organization. This means that for risk management to have any impact, it must have strong support and endorsement from the top. Mallin (2006: 75) sums this up when he said, the tone must come from the top.

Policy and plan

In order to bring agreement to the approach and structure that the organization will use to integrate risk management into its management arrangements, a risk management policy and plan must be developed and implemented (CIPE, 2001:10).

Risk management structure

A risk management committee or working group is a structure bringing together senior staff from the main services who oversee the risk management process within the organization. Detailed terms of reference are necessary to provide guidance and set the authority for this kind of a working group (Davies, 2006:89). The King II Report (2002: 80) recommends that the risk management committee should be appointed to assist the accounting officer in reviewing the risk management process and the significant risk facing the organization. This committee should consider the risk strategy and policy as well as monitoring the process at operational level and the reporting of risk as whole.

Clarity of roles

Members of the risk management committee should be from many disciplines with clearly defined roles and specified lead accountabilities (Mallin, 2006: 75).

Shared Accountability

More will be achieved if organizations can persuade management of the need for action and develop joint objectives and solutions in partnership and cooperation (Hodges, 2005: 517).

Funding

Funding is another element which can enable the risk management measures to be evaluated and brought into use by lending support to pump prime initiatives (CIPE, 2001: 10). For example, prompt assistance can assist a public service manager in managing problems with crime, vandalism and wide range of incidents.

Monitoring and Review

Monitoring against historic loss experience, the national picture of crime statistics and some benchmarking with other similar sized organizations are other options for reviewing success (Hodges, 2005: 518).

Information

Quality information is necessary and essential, particularly if any analysis of potential exposure uses survey information, recent loss experience, complaints received and employee ideas for service improvement (Hodges, 2005: 517).

Communication

Communication is another essential element. It is important that organizations should use all possible methods of publicity such as courses, newsletters, intranets to inform the organizations of current issues regarding risk management (Hodges, 2005: 517).

2.4.2. Risk Assessment

A systematic, documented assessment of the processes and outcomes surrounding key risks should be undertaken at least annually (King II Report, 2002: 82). Risk assessment is a process whereby risks are identified across the entire organization which includes the quantification of the probable impact, and an estimate of the likelihood of occurrence and with recommendations as to how each risk should be managed.

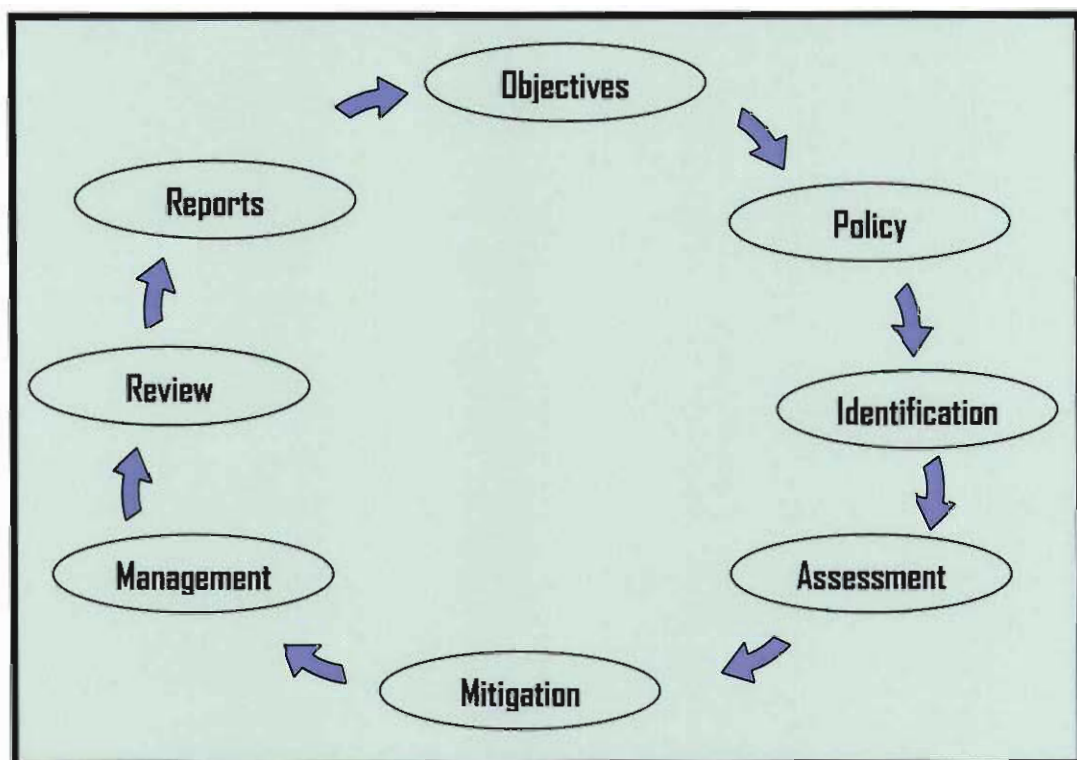
According to Pike (2002: 28), risk assessment should address the organization's exposure to the following:

- Physical and operational risks;
- Human resources risks;
- Technical risks;
- Business continuity and disaster recovery; and
- Compliance risks

2.4.3. Risk Management Cycle.

Figure 2.2 depicts the risk management cycle which starts with helping the organization to achieve its objectives. Each stage is briefly explained below:

Figure: 2.2. Risk Management Cycle



Source: Pickett, 2004:40

Objectives: Include high-level organizational objectives and the lower level operational objectives that derive from the overall strategic plan of the organization. The King II Report (2002: 82) concurs when it states that the risk assessment process should consider risks that are significant to the achievement of the organization's objectives. Risks are

uncertainties that impact the business objectives in terms of actual and perceived threats and missed opportunities (Mallin, 2006: 210). The efforts to set up a system of risk management start with the revisiting of the set objectives and ensuring that they are clearly defined and properly understood by everyone.

The risk policy (See Appendix 7): One aspect of risk management that comes to the fore when developing suitable arrangements relates to the commonality and consistency, that is consistency in terminology, clarity of respective roles within the organization, an accepted assessment methodology, and a willingness to develop a culture that supports risk management and accountability (Pickett, 2004: 40). Hamilton & Micklethwait (2006: 155) state that people need to talk the same language and have shared understanding of what is important and what is less relevant to the business focus. In other words, there needs to be a clear policy in place that addresses the issues mentioned above and other aspects of risk management. The accounting officer should set the risk strategy policies in liaison with the senior management (King II Report, 2002:80). These policies should be clearly communicated to all employees to ensure that the risk strategy is incorporated into the language and culture of the department.

Risk Identification: The risk cycle involves a formal process for identifying risks to the business operations. Risk identification could be in the form of research, business analysis, risk workshops, audit and review, industry benchmarking or regular staff surveys (Thomas *et al.*, 2000: 103). Each enterprise will have a different focus. Banks will be concerned with risks that have an impact on liquidity, loans regulators, automation, product lines, and treasury management and so on. An oil

company may be focused on risks that affect the production setup, safety issues, and environmental concerns and so on. On the other hand government agency may view risks in categories such as funding, regularity, service standards, complaints, and staff retention (Doherty & Horne, 2002: 467). The King II Report (2002: 85) recommends that risks should be identified and assessed on an ongoing basis and control measures be designed to respond to risks throughout the department. Pertinent information arising from the risk assessment and control activities should be identified, captured and communicated in a form and timeframe that enable employees to carryout their responsibilities properly. Control risk self assessment (CRSA) is another technique that provides a powerful mechanism for isolating business risk across all operations of the organization (Pickett, 2004: 41).

Risk assessment: Once all risks are documented, there needs to be a mechanism to put them in the context to sort out what is important and crucial to address and those risks that can be sidelined for the time being. The idea is that an organization can allocate its resource base to areas of high risk with a view to mitigation and meanwhile, assign venture capital to areas of low risk that can further be exploited. Best practice calls for the people closest to the operation or project to be involved in assessing risks to achieving the set goals (Pickett, 2004: 41). It is also felt that each risk should be owned by the person most responsible for the areas affected by the risk in question. The King II Report (2002:82) requires that risk assessment process should include an estimate of the likelihood of occurrence, the quantification of the probable impact, and the comparison with available benchmarks.

The King II Report (2002: 85) recommends that in addition to the organizations' other compliance and enforcement activities, a confidential reporting process (whistleblowing), covering fraud and other risk areas should be implemented. Furthermore, the accounting officer is responsible for disclosures in relation to risk management and should at minimum disclose:

- That he/she is accountable for the process of risk management and the system of internal control, which is regularly reviewed for effectiveness, and for establishing appropriate risk and control policies and communicating these throughout the department;
- That there is an ongoing process for identifying, evaluating and managing the significant risk faced by the department which has been in place for the year under review and up to the date of approval of the annual report and accounts;
- That there is an adequate and effective system of internal control in place to mitigate the significant risks faced by the department to an acceptable level;
- That there is a documented and tested process in place that will allow the department to continue its critical business processes in the event of a disastrous incident impacting on its activities;
- Any additional information in the annual report to assist understanding of the department's risk management processes and system of internal control as appropriate;

- Where the accounting officer cannot make any of the disclosures set out above, he/she should state this fact and provide a suitable explanation.

2.4.4. The Public Sector Risk Management Framework.

With the introduction of the Public Finance Management (PFMA), Act 29 of 1999, the foundation has been laid in the public sector for a more effective corporate governance framework as well as accountability within the financial management system of the public service. The PFMA Act has also established the legal framework for risk management in the public service (National Treasury; 2006: 4).

The National Department of Treasury has, with the assistance of the Public Services Commission (PSC), developed a risk management guideline and framework, designed to provide a robust methodology for risk assessment together with practical strategies to assist departments to implement change towards a risk management conscious public service.

In terms of this framework, risk management processes and responsibilities are incorporated in the list of responsibilities allocated to Accounting Officers (Head of Departments) and Audit Committees. However, these responsibilities are extended to all managers in terms of the provisions of Section 45 of the Public Finance Management Act 29 of 1999. It establishes accountability for risk management at all levels of management and thus becomes everybody's responsibility. Section 45 of the Public Finance Management Act 29 of 1999 prescribes the following in relation to risk management and corporate governance:

"An official in a department, trading entity or constitutional institution.....

- (a) must ensure that the system of financial management, risk management and internal control established for that department, trading entity, or constitutional institution is carried out within the area of responsibility of that official;*
- (b) is responsible for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility;*
- (c) must take effective and appropriate steps to prevent, within that official's area of responsibility, any unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure and any other collection of revenue due;*
- (d) must comply with the provisions of this Act to the extent applicable to that official, including any delegations and instructions in terms of Section 44; and*
- (e) is responsible for the management, including the safeguarding, of assets and the management of the liabilities within that official's area of responsibility.*

The Public Sector Risk Management Framework (RMF) provides a generic guide for the implementation of risk management strategies in the public service, and suggests that risk management is a formal step-by-step process that can be applied at all levels of a department. These principles

are to be implemented within the context of each department who should implement this framework in the development of their own risk management strategies (National Department of Treasury, 2002: 9).

This framework provides a structured approach for incorporating risk management into the daily, broader management process within the public sector. According to the National Treasury, (2006: 6), the risk management process as described by the framework consists of eight interrelated components, namely:

- The control environment – The attitude and actions of the management of the department regarding the importance of internal controls in the department. It includes policies and procedures.
- Objective setting – Involves setting specific, measurable, and timely targets.
- Risk identification – involves finding, defining, describing, documenting and communicating risks before they become problems and negatively affecting a business process or project.
- Risk assessment – A stage in the risk management process where a problem is defined and whereby risks are quantified in terms of likelihood and probability of occurring.
- Risk management strategy – Management's plan to deal with the identified risks, i.e. whether they will attempt to avoid, deal with, transfer or accept the identified risk.

- Information and Communication – Involves effective communication of important information to all stakeholders in such a manner that will allow them to perform their duties as expected.
- Control activities – Control activities are the policies and procedures that help ensure that staff responsibilities are properly carried out.
- Monitoring – Involves continuous monitoring of the Risk management process to ensure that it is applied across all the levels of the department.

Figure 2.3: The Public Sector Risk Management Framework



Source: National Treasury: The Public Sector Risk Management Framework, 2006.

2.5. INTERNAL AUDIT

In order for business organizations to achieve their objectives, management should ensure that sound risk management processes are in place and functioning. The accounting officer through the audit committee as an oversight body, has a role to determine that appropriate risk management processes are in place and that these processes are adequate and effective. Internal Auditors should assist the management of a department by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of governance, internal control and risk management processes (Institute of Internal Auditors Standards, 2002).

One of the pillars of corporate governance relates to the establishment of sound systems of audit and accountability. The accounting officer's report through the annual report communicates with various stakeholders, whereas the independent auditors double check the report and associated accounts on behalf of these stakeholders (Pickett, 2004:3). This straightforward model is, however, dependent on effective internal systems to support the financial and corporate strategies of the organization. Moreover the reality can be far from the theoretical model of ownership, stewardship, management, and accountability, because published information may not always be entirely reliable. The Internal Auditor appears on the horizon to help review the system of controls that addresses actual and perceived threats to an organization. Again, the auditor is an independent party who is able to stand back from apparently conflicting forces when performing its reviews.

The definition of Internal Auditing has been redefined by the Institute of Internal Auditors (IIA) as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes” (Institute of Internal Auditors, Standards, 2002)

It is clear that the definition of Internal Auditing is aligned to the corporate governance agenda.

The Institute of Internal Auditors’ Standards, (2002) highlights that the scope of Internal Auditing should encompass the following:

Risk Management - The Internal Audit function assists the management of the organization in identifying, evaluating and assessing significant risks as well as providing an assurance with regard to the adequacy and effectiveness of internal control systems.

Internal Control systems – Internal Auditors assist management of the organization to evaluate the efficiency and effectiveness of the internal control systems in place and recommends necessary improvements where weaknesses have been identified.

The King II Report (2002: 95) states that the scope of the Internal Auditors includes corporate governance processes - Internal Auditors assist the management of the organization to achieve the goals and objectives by evaluating and recommending improvements to the process through which:

- Goals and values are established and communicated;
- The accomplishment of goals is monitored;
- Accountability is ensured; and
- Corporate values are preserved.

It is clear from the above that the assessment of the organization's corporate governance procedures is another dimension of the Internal Auditor's role. In a nutshell, it embraces the functions of management, stakeholder communication, ethics, employment equity and including social empowerment programmes.

The King II Report on corporate governance recommends that the Internal Audit function should be independent from activities, systems or processes they audit and should be objective in performing their work (King Committee, 2002: 90). Internal Audit plays a very significant role by providing an independent assurance regarding the effectiveness of the organization's corporate governance, risk management processes and system of internal control.

The functions of the Internal Audit activity are guided by a selection of international and local standards. All Internal Audit function's work should be in line with the Institute of Internal Auditors (IIA) standards for professional practice of Internal Auditing (The Institute of Internal Auditors, 2002: 3).

Internal Audit authority and responsibility

The Institute of Internal Auditors Standards for Professional Practice of Internal Auditing, (The Institute of Internal Auditors, 2002: 3) standard

1000 provides that, the purpose, authority, and responsibility of the Internal Audit activity should be formally defined in a charter, consistent with the *Standards*, and approved by the board. The Institute of Internal Auditors Standards further requires that the nature of assurance services provided to the organization should be defined in the audit charter (Institute of Internal Auditors, 2002:3). Standard 1110 (Institute of Internal Auditors Standards, 2002:3) requires that the Chief Audit executive should report to a level within the organization that allows the Internal Audit activity to fulfil its responsibilities.

Standards for Professional Practice of Internal Auditors

The Institute of Internal Auditors (IIA) is an international organization with members around the world. The aim of the organization is to:

- Provide on an international scale, comprehensive professional development activities, standards for professional practice of Internal Auditing, and certification;
- Research , disseminate, and promote to its members and to the public at large, knowledge and information regarding Internal Auditing;
- Establish meetings worldwide with the aim of educating members and others to the practice of Internal Auditing; and
- Bringing together Internal Auditors from all over the world to share information and experiences in the Internal Audit field and promoting education in the field of Internal Auditing.

The Institute of Internal Auditors developed a Professional Practices Framework in 1999 which provides a structural blue print of how a body of knowledge and guidance fits together. The Professional Practices Framework facilitates consistent development, interpretation, and application of concepts, methodologies and techniques useful to a profession. The specific purpose of the framework is to provide a readily accessible guidance in a timely manner. The framework consists of three categories of guidance being; standards and ethics; Practice Advisories and Development and Practice Aids.

The Treasury Regulations (2005: 9) requires that the Internal Audit function within a government department should be conducted in line with the requirements of the Institute of Internal Auditors Standards for Professional Practice of Internal Auditing. The King Committee (2002: 92) states that compliance with the published standards is essential before the responsibilities of Internal Auditors can be properly met. Adherence to the standards of the Institute of Internal Auditors will therefore ensure a common framework and understanding of the requirements for effective Internal Auditing.

2.6. AUDIT COMMITTEES

An audit committee is a committee or equivalent body established by and amongst the board of directors for the purpose of overseeing the accounting and financial reporting processes of the organization and audits of the financial statements of that organization (Pickett, 2004: 34). The Public Finance Management Act requires that each government department should have an Internal Audit function under the guidance of an audit committee (National Treasury, 2001: 9).

The responsibility of the audit committee is to ensure that the organization's financial statements are fair, complete, reliable, and easy to understand (Pickett, 2004:35). The committee's functions also include overseeing risk management, internal control processes, compliance and special investigations. According to the Institute of Internal Auditors Standards, Practice Advisory 2060-2, audit committee is defined as the governance body that is charged with oversight of the organization's audit and control functions (The IIA, 2002:50).

The audit committee responsibilities are summed up by Mallin (2006: 195) as the following:

- To ensure that the committee members meet the criteria for independence and that they do not receive fees or bonuses for, say, consulting work to the organization or be associated with any such party;
- To ensure that there is at least one appropriate so-called "financial expert" who sits on the audit committee and who understands the accounts, accounting standards, internal controls, financial reporting, and workings of the audit committee;
- To oversee the appointment, compensation, performance, and retention of an external auditor and ensure that any problems involving the audit service are addressed and resolved;
- To approve admissible non-audit services provided by the external auditor.

- To receive reports from the external auditor concerning the use of material GRAP and alternative policies , the management letter, and other correspondence such as the independence and engagement letters;
- Ensure that there is a suitable whistleblower's facility covering audit and accounting matters;
- Engage suitable experts, which may include the external auditor, to conduct investigations into accounting impropriety when required and appropriate;
- To oversee the Internal Audit process. The Treasury Regulations (2005: 8) states that the audit committee must, among other things, review the effectiveness of internal control systems and the Internal Audit function within a government department.
- The organizations' compliance with legal and regulatory provisions.

Committee Composition

Requirements for independence and financial literacy, limitations on the number of audit committee members and concerns around liability have made it more challenging to recruit qualified members to an audit committee. The King Committee (2002: 137) requires that the chairperson of the audit committee should be knowledgeable about the status of the position, have the required business, financial and leadership skills and be a good communicator. The chairperson should be an independent non-executive director.

Confirming this recommendation, the Treasury Regulations (2005:8) provides that the chairperson of the audit committee must be independent, be knowledgeable of the status of the position, have the requisite business, financial and leadership skills and may not be a political office bearer. It continues by providing that, the committee should operate in terms of written terms of reference, which must specify its membership, authority and responsibility.

Audit Committee Charter

At the heart of the audit committee is its charter (see Appendix 6). This document is not simply a bylaw provision or resolution. It clearly expresses the audit committee's purpose, roles, scope of responsibility, composition and authority.

Internal Audit and the audit committee

The potential contribution to the success of the audit committee is recognized by the Institute of Internal Auditors (IIA), which make it clear in the Practice Advisory 2060-2 that: The Institute of Internal Auditors recognizes that audit committees and Internal Auditors have interlocking goals in implementing good corporate governance. A strong working relationship with the audit committee is essential for each to fulfil its responsibilities to senior management. The relationship is important with the Internal Auditors providing objective opinions, information, support, and education to the audit committee and the audit committee providing validation and oversight to the Internal Auditors.

Pickett, (2004: 36) is of the opinion that regarding this relationship there should be a direct channel of communication between the head of Internal Audit function, referred to as Chief Audit Executive, (CAE) and the audit committee. The Treasury regulations issued in terms of the Public Finance Management Act 29 of 1999 (2005:10) states that the Internal Audit function of the government department must report directly to the accounting officer and shall report at all audit committee meetings. The King Committee (2002: 91) concurs when it recommended that: Internal Audit should report at a level within the company that allows it fully to accomplish its responsibilities. The head of Internal Audit should report administratively to the chief executive officer and should have ready and regular access to the chairperson of the audit committee. Internal Audit should report at all audit committee meetings.

Hamilton & Micklethwait (2006: 143) concludes about this relationship as follows:

- To ensure transparency and thwart collusion and conflicts of interests, best practice indicates that the Internal Audit activity should have a dual reporting relationship. The Chief Audit Executive should report to the executive management for establishing direction, support, and administrative interface; and to the organization's most senior oversight group, typically the audit committee for validation, reinforcement and accountability.
- The audit committee and the Internal Auditors are interdependent and should be mutually accessible, with the Internal Auditors providing objective opinions, information, support, and education to

the audit committee, and the audit committee providing validation and oversight to the Internal Auditors.

- The Internal Auditors keep the audit committee informed and up to date on the state of the organization with regard to the risk, control, governance and the coordination and the effectiveness of monitoring activities.

2.7. ETHICS (FRAUD PREVENTION)

Every company should engage its stakeholders in determining the company's standards of ethical behaviour; it should demonstrate its commitment to organizational integrity by codifying its standards in a code of ethics (King Committee, 2002: 37). Organizations should have written documents that outline their values and principles; examples of ethical and unethical behaviours; guidelines and practices; as well as rules of conduct.

The code of conduct for public service has a very significant role to play within the public sector. Government functions are like a machinery or system that consists of numerous components that work in synergy towards a common goal (DPSA, 2003: 83). Like cogs in a wheel, government employees are a key factor in the smooth, synergistic running of the different components of the machine. Just as the synergy is a key factor in the operability of the machinery, discipline and adherence to a common, officially recognized set of ground rules is indispensable in ensuring a harmonious, coordinated effort by all the government employees.

The King II Report (King Committee, 2002:37) recommends that each company should demonstrate its commitment to its code of ethics by:

- Creating systems and procedures to introduce, monitor and enforce its ethical code;
- Assigning high-level individuals to oversee compliance to the ethical code;
- Assessing the integrity of new appointees in the selection and promotion procedures;
- Exercising due care in delegating discretionary authority;
- Communicating with, and training all employees regarding enterprise values, standards and compliance procedures;
- Providing, monitoring and auditing safe systems for reporting of unethical or risky behaviour;
- Enforcing appropriate discipline with consistency; and
- Responding to the offences and preventing re-occurrence.

The code of conduct for public service deals with, among other things:

- (a) an employee relationship with the public;
- (b) an employee's relationship with other employees;
- (c) the required performance of duties ; and

(d) personal conduct and avoidance of conflict of interest.

The King II Report recommends that companies should disclose in their annual reports of their adherence to the code of ethics (King Committee, 2002: 38). A code of conduct contains excellent guidelines that could promote accountable governance. However, it is imperative that it is brought to the attention of all employees on a continuous basis and seen to be properly implemented.

In a nutshell, the code of ethics should be implemented as part of good corporate governance. The code should commit the national department to the highest standards of behaviour and be sufficiently detailed as to give clear guidance as to the expected behaviour of all employees within the institution including other stakeholders.

2.8. KING II REPORT – MEANS OF FIGHTING CORRUPTION

A recent survey by the Institute of Democracy in South Africa (IDSA) in 2005 on the perceptions of corruption in South African government (see www.idasa.org.za) showed that 50% of the respondents felt that all national government officials were involved in corruption. If one reviews the results over the last decade it is very clear that public perceptions of corruptions increased between 2000 and 2002 (see www.idasa.org.za).

Corporate governance is seen by Balia (2005:76) as a means whereby society can be sure that large corporations and government departments are well-run institutions to which investors and lenders can confidently commit their funds. It is a focal point in creating safeguards against

corruption and mismanagement, while promoting fundamental values of economy in a democratic society (Davies, 2006: 108).

The King II Report on Corporate Governance for South Africa provides values or characteristics which include accountability, transparency, discipline (rule of law), fairness, responsibility, independence and social responsibility. As indicated by Yalamov and Belev (2003: 79), implementation of good corporate governance principles attacks the corrupt practices both in the public and private sector. The King II Report on Corporate Governance can, if implemented effectively provide effective instruments in the fight against corruption (Payne, 2002:35).

2.9. SUMMARY AND CONCLUSION

In this chapter the author introduces the background of the King II Report on Corporate Governance for South Africa, 2002. Other literature on the subject of Corporate Governance had been explored and discussed in this chapter. The King II Report provides guidelines on financial performance, risk management, remuneration, audit committees, sustainability reporting, stakeholder interest, the balance of power and the role of directors within a business organization.

The King Code of Corporate Practices and Conduct applies to all companies listed on the Johannesburg Securities Exchange (JSE); banks; financial and insurance entities; public sector enterprises and agencies that fall under the Public Finance Management Act 29 of 1999; and the Local Government Municipal Finance Management Act including any department of state or administration in the national, provincial or local sphere of government.

The chapter goes on to introduce various fundamental governance concepts as prescribed by the King II Report on Corporate Governance, such as risk management, Internal Audit, audit committees, reporting, and the code of ethics. Risk management is a systematic method of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organizations to minimize losses and maximize opportunities. The King II Report prescribes that risk management and internal control should be practiced throughout the company by all staff and should be embedded in day to day activities of the organization.

Internal Auditors, on the other hand, assist the management of a department by examining, evaluating, reporting and recommending improvements on the adequacy and effectiveness of governance, internal control and risk management processes. One of the pillars of good corporate governance relates to the establishment of sound systems of audit and accountability. The Internal Audit activities are overseen by a body called the audit committee. The responsibility of an audit committee is to ensure that the organization's financial statements are accurate, complete and reliable. The committee's functions include overseeing risk management, internal control processes, compliance and specialized investigations.

This chapter discloses all statutory and other regulations to ensure good governance of public departments in the Republic of South Africa. Based on these requirements, the current situation in the South African national departments was surveyed by means of a questionnaire in Chapter 3.

CHAPTER 3: RESEARCH METHODOLOGY AND RESULTS

3.1. INTRODUCTION

Chapter one introduced and provided the background to the study. Chapter two, which is the literature study, explains in great detail the subject of corporate governance. In that chapter, various elements of good corporate governance such as Risk Management, Internal Audit, Audit Committees, and Code of Ethics (fraud prevention) were introduced and discussed as well as providing the background on the public sector governance.

This chapter will set out the research methodology followed in this study to evaluate the state of corporate governance in the South African public sector. The research methodology followed by this study was briefly explained in paragraph 1.7 of Chapter one and will be reiterated in greater detail in this chapter.

The report will further discuss the sample size, followed by the research design and the survey method used. Finally, an in-depth discussion of the development of the questionnaire will be undertaken.

3.2. RESEARCH OBJECTIVES

The research objectives were clearly detailed in Chapter one, paragraph 1.6.

The empirical study is based on the elements of good corporate governance as prescribed by the King II Report on Corporate Governance for South Africa. The questions posed in the study questionnaire were

developed for each of the four elements of Corporate Governance as discussed in Chapter two, i.e. (a) Risk Management; (b) Internal Audit; (c) Audit Committee and (d) Code of ethics (fraud prevention), to determine the extent of implementation in the national government departments as well as whether there is still some work that is required to be done by these public institutions.

3.3. RESEARCH METHODOLOGY

This section will outline the research methodology followed to investigate the extent of implementation of the principles of Corporate Governance by the national government departments and will cover definition of population, determination of sample size, selecting the sample, designing the questionnaire, data collection, and administering the questionnaire.

3.3.1. Research Design

In order to achieve the objectives of the study, a well-structured questionnaire was used to collect data from key role players in the public sector national departments. A questionnaire was designed and distributed to the relevant sources within 37 national government departments. The purpose of this questionnaire was to obtain the respondents' views as to the implementation of the King II Report within their institutions.

3.3.2. Definition of population

A population is defined as the totality of cases that conform to some designated specifications (Zikmund, 2003:535).

The public sector departments would include all departments of all three spheres of government namely; national government, provincial and local government. The population targeted for the purpose of this research consists of the 37 national government departments. The decision to include all national government departments in the study was informed by the following:

- Compliance starts at the top. The researcher is interested in finding out the progress of the higher levels of government, i.e. national departments with regard to the implementation of the King II Report prior to provincial and local governments' levels.

Therefore, the questionnaires were distributed to all 37 national government departments. The targeted respondents were all the Directors-General of the 37 national departments.

3.3.3. Determination of sample size

All 37 national government departments were selected; therefore 100% of the population was targeted which is well representative. An electronic internet-based questionnaire was developed and used for this study. Each Director-General was sent an email containing a URL link to the questionnaire as well as the instructions for completion.

Directors-General of the national government departments were targeted as respondents as the responsibility for implementing Corporate Governance lies with them as Accounting Officers. Therefore, they were

requested to complete the questionnaire or delegate to a suitable representative in their respective departments.

Participation in this study was completely voluntary and no person was compelled to complete the questionnaire therefore there was a great possibility that not all who received questionnaire may choose to return a completed questionnaire.

3.3.4. Designing the questionnaire

The format of the questionnaire ensured confidentiality of information and anonymity of the respondents. Specific details that could identify the respondents such as name, employee numbers, etc, were not included in the questionnaire.

The questionnaire consisted of six sections. The questions in the questionnaire were all based on the elements of corporate governance as recommended by King II report on Corporate Governance for South Africa, as discussed in details in Chapters 1 and 2. The questions in the questionnaire were therefore grouped according to the elements and not the response type.

The questionnaire included three types of question responses. They are summarized as follows:

- **Multichotomous** - A fixed-alternative question containing three or more alternatives in which respondents are asked to choose the alternative that most closely corresponds to their position on the subject.

Example:

Has the department established a Risk Management Committee?

- ☐ Yes
- ☐ No
- ☐ Do not know

- **Multiple-Choice Questions** – These questions provided respondents with a number of predefined response options from which to choose. These included types where respondents could select one option and where multiple options could be selected.

Examples:

(Where only one option could be selected)

The chairperson of the audit committee is,

- ☐ Independent member
- ☐ Accounting Officer
- ☐ Chief Financial Officer
- ☐ Head of Internal Audit
- ☐ Other (Specify)

(Where more than one option could be selected)

The Internal Audit annual coverage plan is based on the following.
(Tick all boxes that apply)

- ☐ Risk Management plan
- ☐ Internal Audit risk assessment or judgment
- ☐ Management requests
- ☐ Management inputs
- ☐ Audit Committee inputs
- ☐ Other (Specify)

- **Scaled response questions** – These questions are used in an attempt to determine the degree of perception or feeling of the respondent to a particular question or statement.

Example:

Risk Management is practiced by all employees of the department in their day to day activities.

- ☐ strongly disagree
- ☐ disagree
- ☐ agree
- ☐ strongly agree
- ☐ do not know

De Vos (1998:155) maintains that the following guidelines should be followed when compiling a questionnaire:

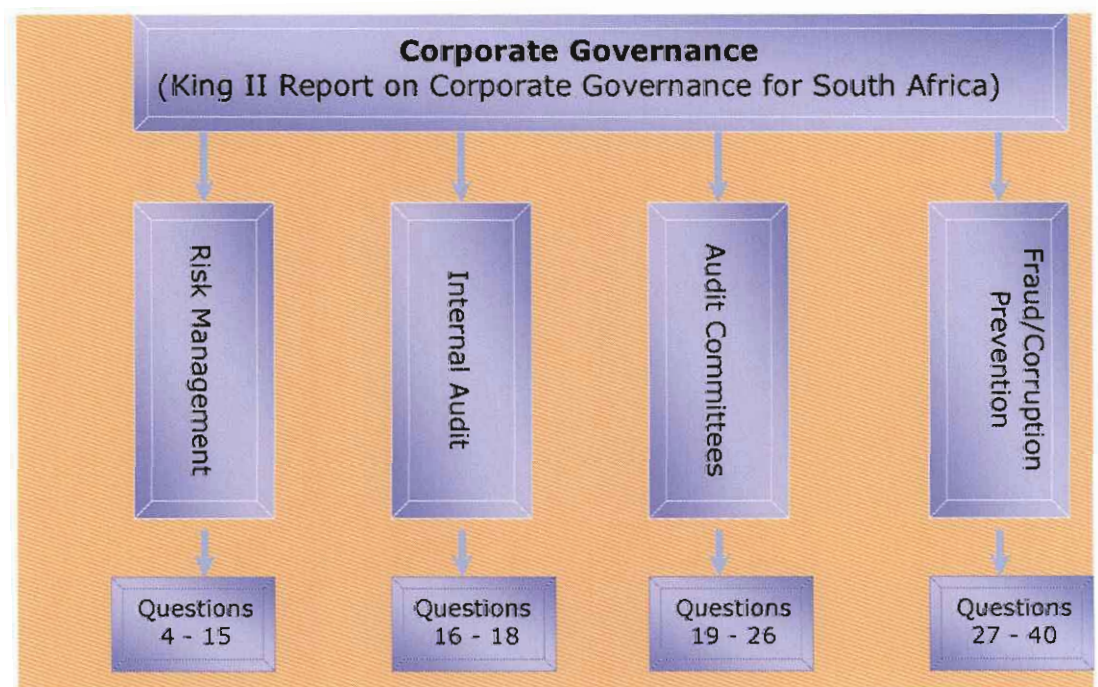
- The questions should be worded so that they are unambiguous and easily understood.
- The wording should consider the full context of the respondent's situation.
- The questions should be in plain and simple language.
- The questions should never reflect any bias.
- All the questions should be relevant to the purpose of the study.

The first section of the questionnaire is the covering letter explaining the purpose of the study as well as instructions for completing it. As with all research, respondents may have questions with regards to the research in which they are participating. In order to familiarize the respondents to the questionnaire and the research, this covering letter was included (See Appendix 2).

The second part of the questionnaire covers the demographic details of the respondents such as the name of the department, the position of the respondent, and the number of years since appointed in the department.

Section three to six of the questionnaire covers specific research questions on the principles of corporate governance as recommended by the King II Report on Corporate Governance. These include questions on Risk Management, Internal Audit, Audit Committees, and Fraud Prevention. Appendix 3 of this dissertation contains the full questionnaire.

Figure: 3.1. Research Framework underlying this study



3.3.5. Data collection

This section defines the methodology to be employed in evaluating the extent to which principles of Corporate Governance are implemented by the targeted national government departments. A survey method was used to collect the information required in this study. A survey is defined as a method of gathering primary data based on communication with a representative sample of individuals using a questionnaire (Zikmund, 2003: 175).

A questionnaire was designed for completion by the identified respondents in this survey. The theoretical information analysed in Chapter 1 and 2 also formed the basis for the compilation of the questionnaire. Specific research questions were then derived from this and included in the questionnaire.

3.3.6. Administering the questionnaire

It was decided that a web-based (electronic internet based) questionnaire should be distributed to the members of the targeted group in all 37 national government department through email. The questionnaire was converted to html-format by a member of the Statistics Support Services of the North West University and was further placed on the VOVICI.COM. Respondents were provided with a URL link to access the questionnaire.

This survey method was preferred to the paper format due to several advantages such as the following:

- The method is cost effective as there are no postages and other administrative costs involved;
- There is speed of distribution and return as well as convenience for the respondents and therefore this reduces the chances of losing questionnaires in the process;
- Respondents receive the questionnaire at the same time as opposed to receiving it at different times;
- The completed questionnaires are automatically sent directly to the researcher and therefore provide for adequate confidentiality;
- Respondents at remote geographical areas can be reached with ease; and
- Time taken to capture data for analysis is reduced as the data received is in an electronic format;

This method of data collection however has some disadvantages such as:

- Lack of access to email and internet to some of the target group;
- Some respondents may fear to complete the questionnaire honestly thinking that their responses could be traced back to them; and

- Technical glitches in completing and returning the questionnaire experienced by some respondents.

3.3.7. Data Analysis

After the data had been collected the next step in the research process was to interpret such information in congruence with the parameters delineated by the research proposal and the related research questions. Data analysis comprises scrutiny, classification, tabulation and integration of information in such a way that it addresses the initial propositions of the study. The researcher therefore relies on a combination of the literature review, statistics, information which could be gathered by means of interviews, information from direct and participant observation on which to base conclusions, interpretations and deductions.

3.4. RESEARCH RESULTS

This section will present and discuss the results of the research study. The instrument used to collect data was a questionnaire which was distributed to all 37 national departments for completion. The data gathered from the respondents were collated and analysed for presentation in this section. Tables and charts in this section illustrate the data which resulted from the investigation based on the percentages of the responses to the questions.

The responses received reveal the status of implementation of the recommendations of the King II Report on Corporate Governance for South Africa by various national government departments.

The data were analysed with the assistance of a Statistician of the Statistical Support Services of the North West University in Potchefstroom.

A total of 37 questionnaires were distributed to the Directors-General of all the national departments through email in September 2007. The data presented here are based on 29 returned questionnaires, which constitute a 78% response rate.

3.4.1. Section A: Demographic analysis of the data received.

The following Tables represent a breakdown of the demographic data received from the questionnaires returned. Table 3.1 indicates the distribution of the respondents by the level of designation in terms of percentages.

Table 3.1 Respondent's position in the department

Designation	Frequency (n=29)	Percentage
Deputy Directors-General	4	14%
Chief Financial Officers	4	14%
Head of Internal Audit	6	20%
Chief Risk Officer	2	7%
Internal Auditor	4	14%
Internal Control Officer	4	14%
Compliance Officer	1	3%
Other	4	14%
Total	29	100%

The highest response was from the "Head of Internal Audit" group at 20% followed by the Deputy Director General, Chief Financial Officer, Internal Auditor, Internal Control Officer and Other, all at 14%. The next group was represented by "Chief Risk Officers" at 7% followed by the Compliance Officer at 3%. See also Figure 3.2.

Figure: 3.2. Respondent's position in the department

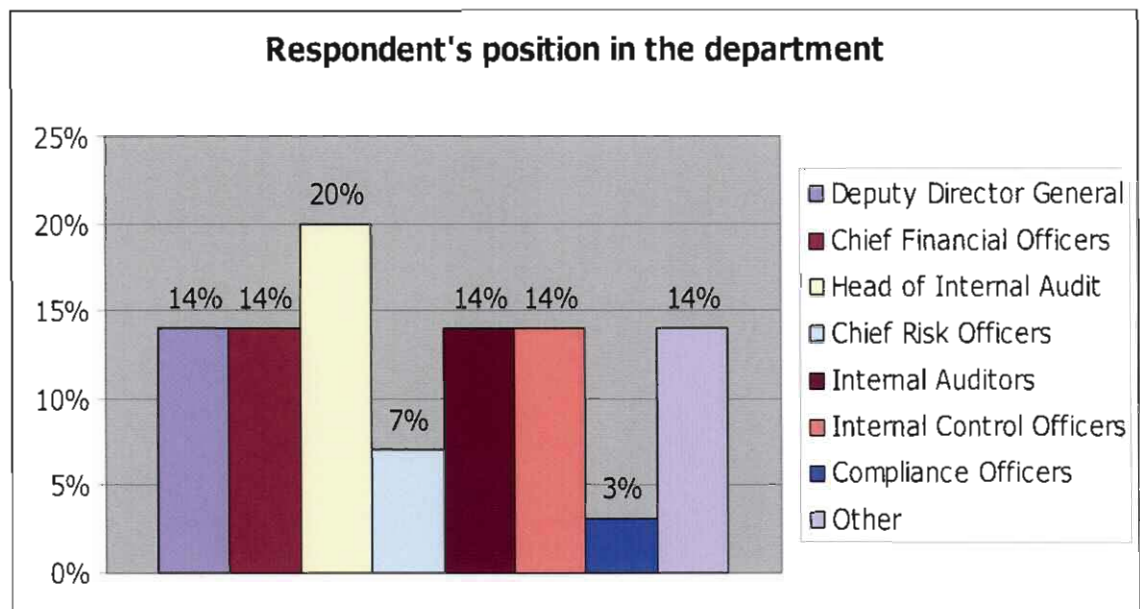


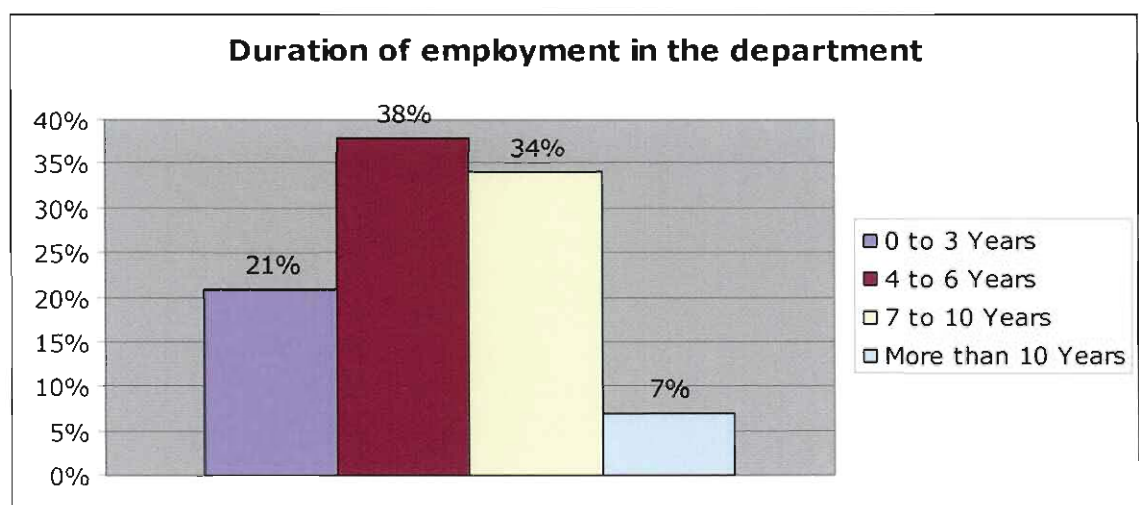
Table 3.2 below indicates the respondent's experience (number of years) in the respective national government departments.

Table: 3.2. Duration of employment in the national department

No. of yrs employed in the department	Frequency (n=29)	Percentage
0-3 years	6	21%
4-6 years	11	38%
7-10 years	10	34%
More than 10 years	2	7%
Total	29	100%

38% of the respondents have been employed in their respective departments for a period of 4 to 6 years, followed by 34% with experience of between 7 and 10 years, whereas 21% of the respondents had between 0 and 3 years of experience and lastly only 7% had more than 10 years of experience. See also Figure 3.3 below.

Figure: 3.3 Duration of employment in the department



Therefore, it can be concluded that the respondents constituted a representative sample with reference to the following criteria:

- All employed in the national government department;
- Position (seniority) of the respondent in the department; and
- Duration of employment in these national departments.

3.4.2. Section B: Implementation of Risk Management systems in the departments.

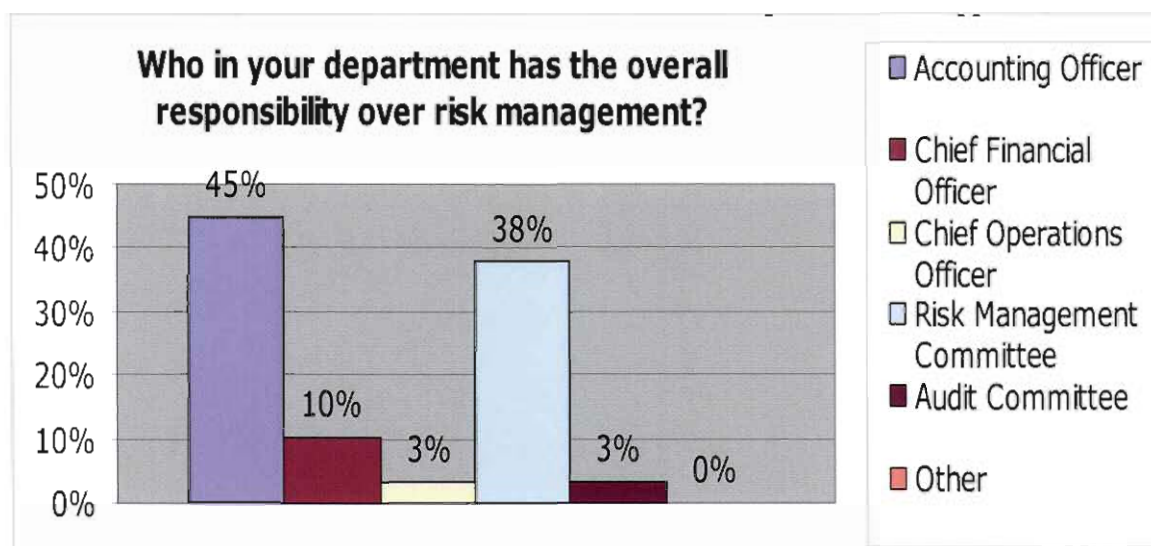
3.4.2.1 Question 4: Who in your department has the overall responsibility for risk management processes?

Table 3.3 and Figure 3.4 below indicate the responses received on the question “who in your department has the overall responsibility over risk management processes?”

Table: 3.3. Responsibility for risk management processes

Responsibility for Risk Management	Frequency (n=29)	Percentage
Accounting Officer	13	45%
Chief Financial Officer	3	10%
Chief Operations Officer	1	3%
Risk Management Committee	11	39%
Audit Committee	1	3%
Other	0	0%
Total	29	100%

Figure: 3.4. Responsibility for risk management processes



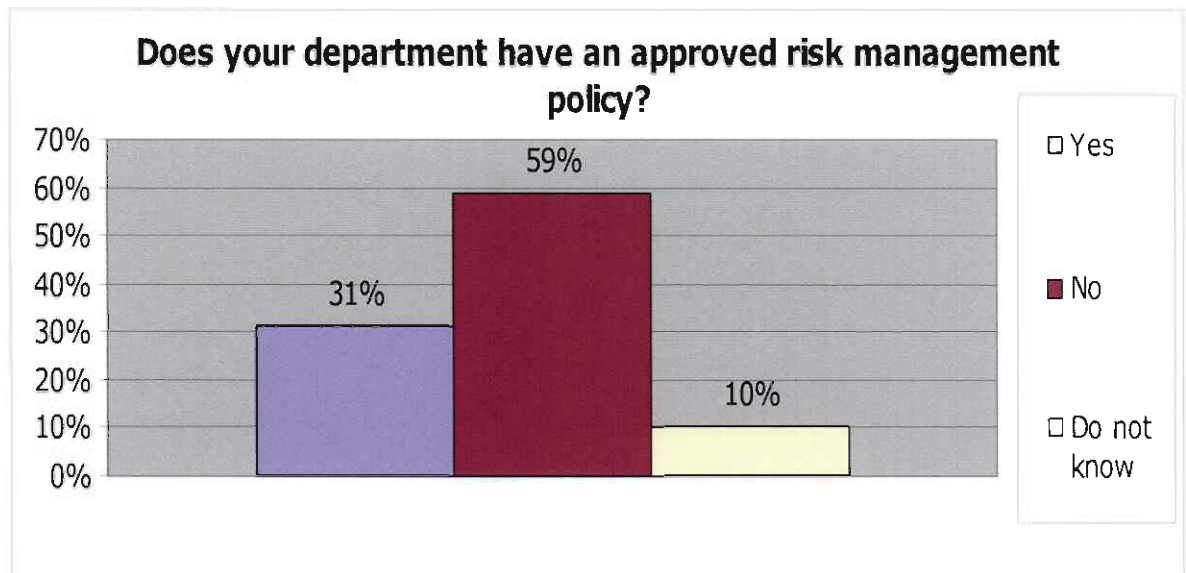
3.4.2.2 Question 5: Does your department have an approved risk management policy?

Table 3.4 and Figure 3.5 below indicate the responses received on the question "Does your department have an approved risk management policy?"

Table: 3.4. Risk Management policy

Risk Management policy in place?	Frequency (n=29)	Percentage
Yes	9	31%
No	17	59%
Do not know	3	10%
Total	29	100%

Figure: 3.5. Risk Management policy



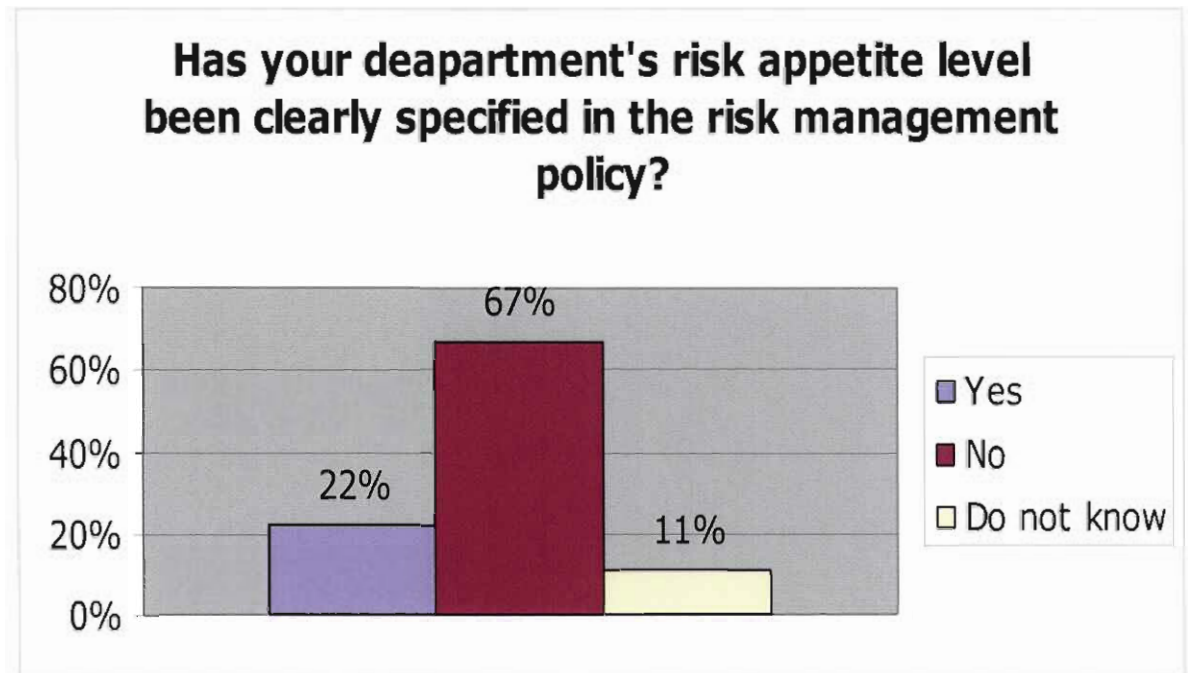
3.4.2.3 Question 6: Has your department's risk appetite level been clearly specified in the risk management policy?

Table 3.5 and Figure 3.6 below indicate the responses received on the question "Has your department's risk appetite level been clearly specified in the risk management policy?"

Table: 3.5. Department's risk appetite clearly defined.

Risk appetite clearly defined?	Frequency (n=9)	Percentage
Yes	2	22%
No	6	67%
Do not know	1	11%
Total	9	100%

Figure: 3.6. Department's risk appetite clearly defined.



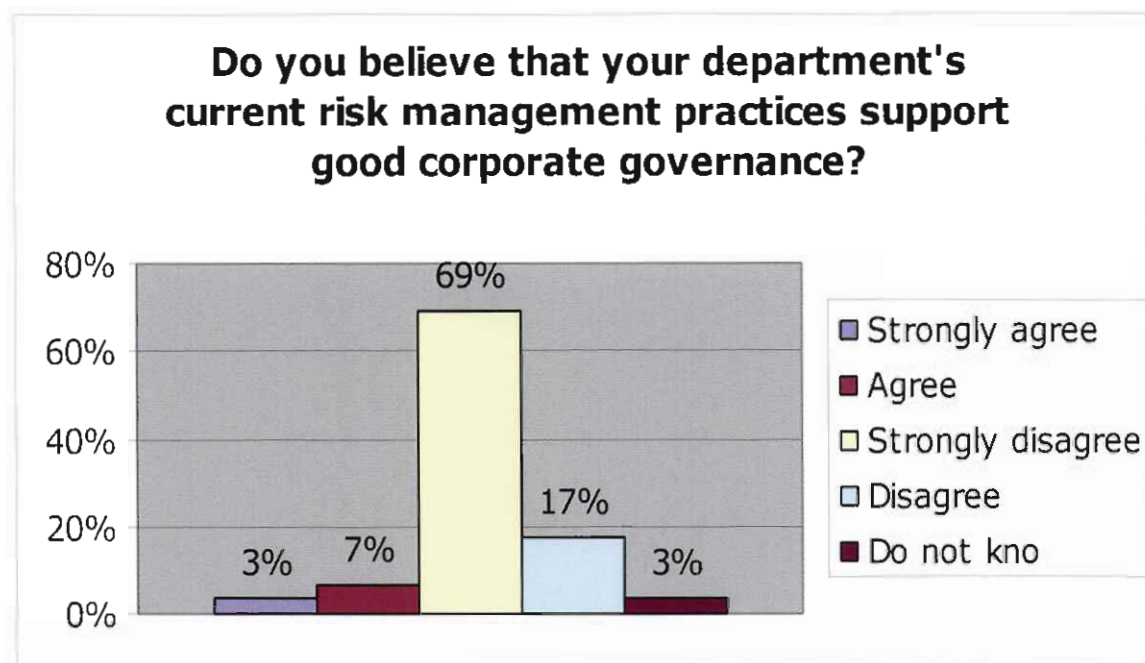
3.4.2.4 Question 7: Do you believe that your department's current risk management practices support good corporate governance?

Table 3.6 and Figure 3.7 below indicate the responses received on the question "Do you believe that your department's current risk management practices support good corporate governance?"

Table: 3.6. Risk management practices support good governance

Risk management practices support good governance?	Frequency (n=29)	Percentage
Strongly agree	1	4%
Agree	2	6%
Strongly disagree	20	69%
Disagree	5	17%
Do not know	1	4%
Total	29	100%

Figure: 3.7. Risk management practices support good governance



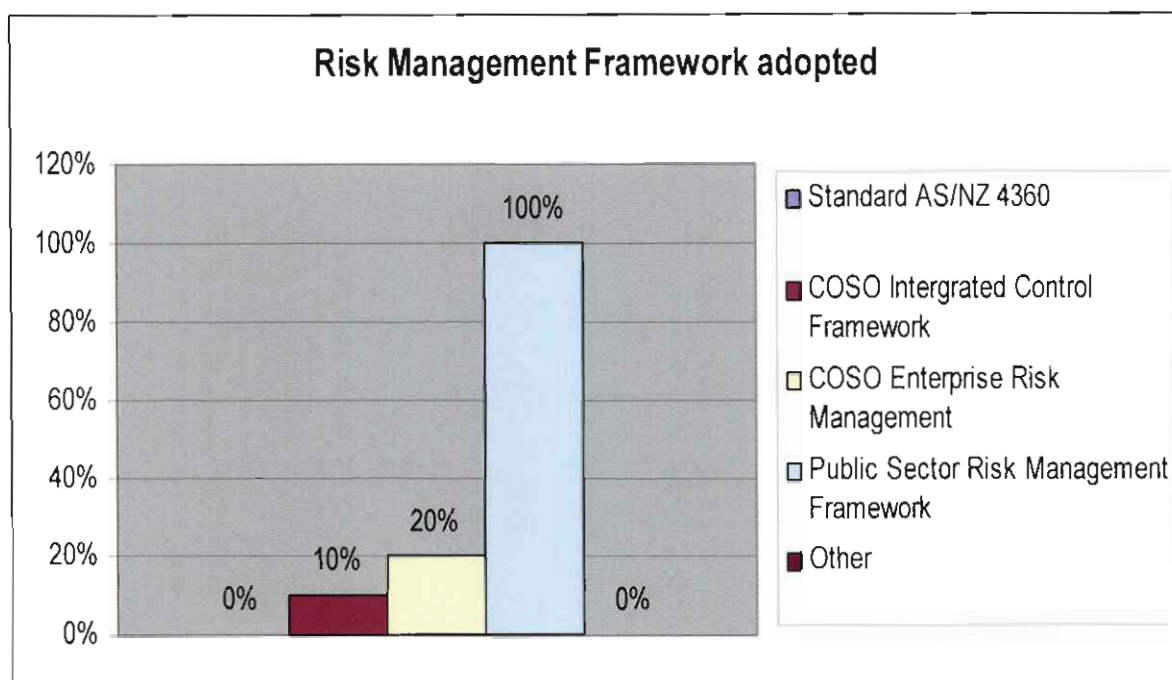
3.4.2.5 Question 8: The department uses the following risk frameworks as a basis for the risk management process. (Tick all that apply)

Table 3.7 and Figure 3.8 below indicate the responses received on the question "The department uses the following risk frameworks as a basis for the risk management processes"

Table: 3.7. Risk Management framework adopted by the department

Risk management framework adopted	Frequency (n=29)	Percentage
Standard AS/NZ 4360	0	0%
COSO Integrated Control Framework	3	10%
COSO Enterprise Risk Management Integrated Framework	6	20%
Public Sector Risk Management Framework	29	100%
Other	0	0%

Figure: 3.8. Risk Management framework adopted by the department



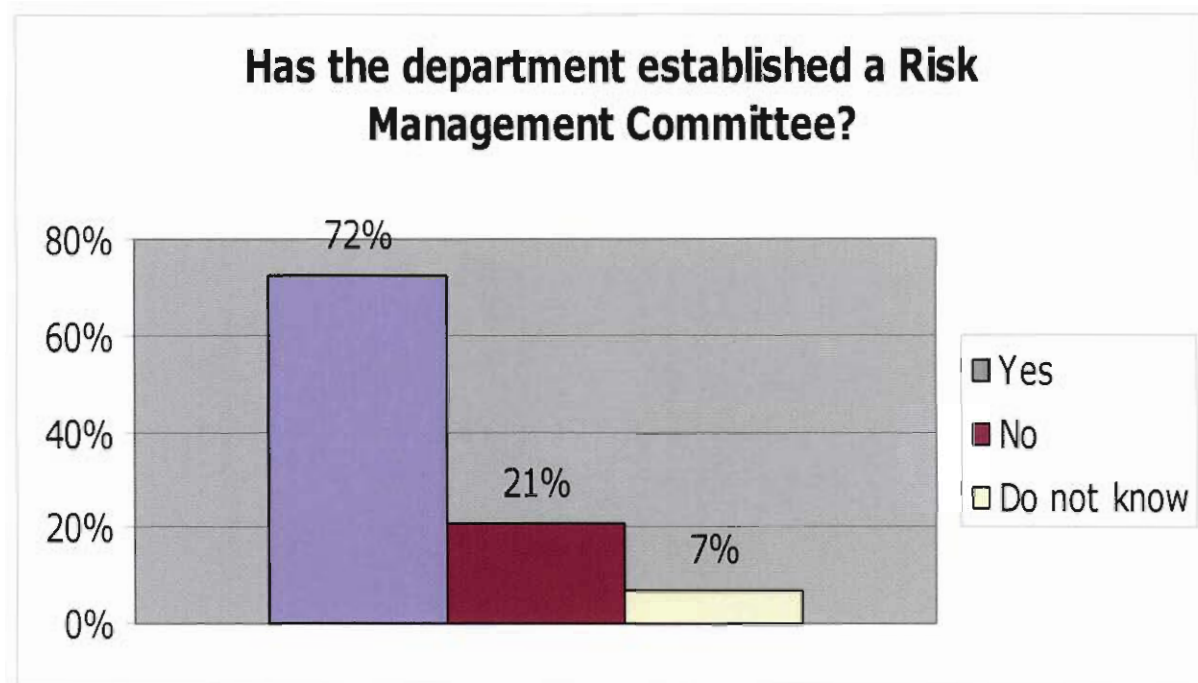
3.4.2.6 Question 9: Has the department established a Risk Management Committee?

Table 3.8 and Figure 3.9 below indicate the responses received on the question "Has the department established a risk management committee?"

Table: 3.8. Risk Management Committee established?

Risk Management Committee in place	Frequency (n=29)	Percentage
Yes	21	72%
No	6	21%
Do not know	2	7%
Total	29	100%

Figure: 3.9. Risk Management Committee established?



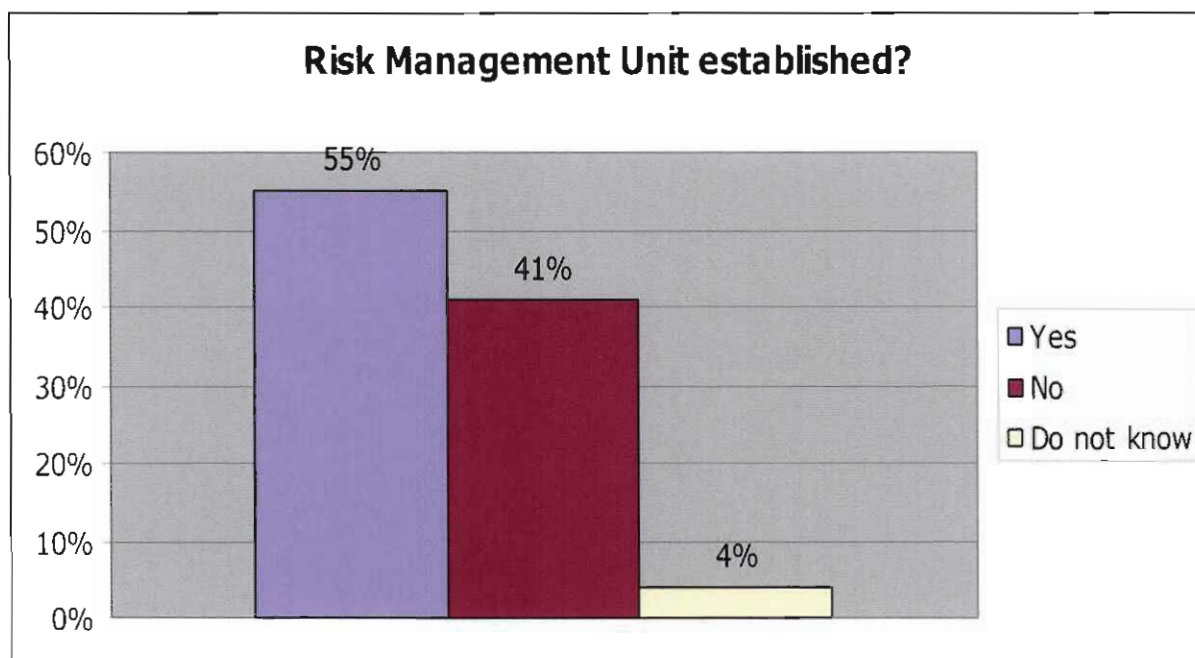
3.4.2.7 Question 10: Has the department established a Risk Management Unit?

Table 3.9 and Figure 3.10 below indicate the responses received on the question "Has the department established a risk management Unit?"

Table: 3.9. Risk Management unit established?

Risk Management Committee in place	Frequency (n=29)	Percentage
Yes	16	55%
No	12	41%
Do not know	1	4%
Total	29	100%

Figure: 3.10. Risk Management unit established?



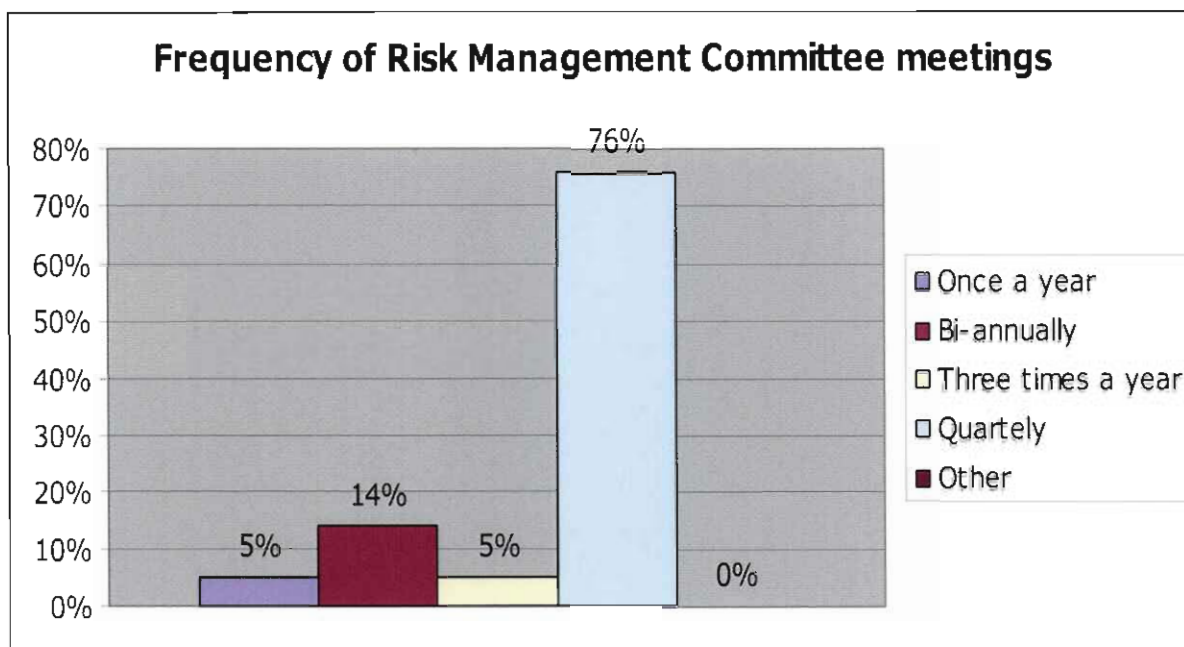
3.4.2.8 Question 11: How many times in a year does the Risk Management Committee hold its meetings?

Table 3.10 and Figure 3.11 below indicate the responses received on the question "How many times in a year does the risk management committee hold its meetings?"

Table: 3.10. Risk Management Committee meetings

Risk Management Committee Meetings	Frequency (n=21)	Percentage
Once	1	5%
Bi-annually	3	14%
Three times	1	5%
Quarterly	16	76%
Other	0	0%
Total	21	100%

Figure: 3.11. Risk Management Committee meetings



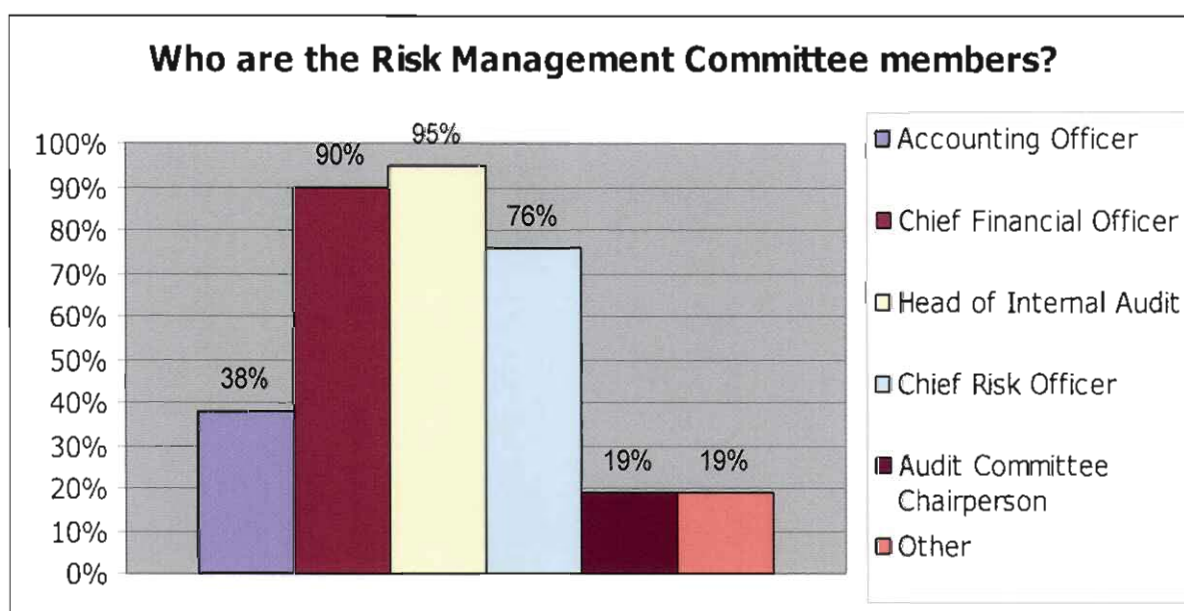
3.4.2.9 Question 12: Who are the members of the Risk Management Committee? (Tick all that apply)

Table 3.11 and Figure 3.12 below indicate the responses received on the question "Who are the members of the risk management committee?"

Table: 3.11. Risk Management Committee members

Risk Management Committee members	Frequency (n=21)	Percentage
Accounting Officer	8	38%
Chief Financial Officer	19	90%
Head of Internal Audit	20	95%
Chief Risk Officer	16	76%
Audit Committee Chairperson	4	19%
Other	4	19%

Figure: 3.12. Risk Management Committee members



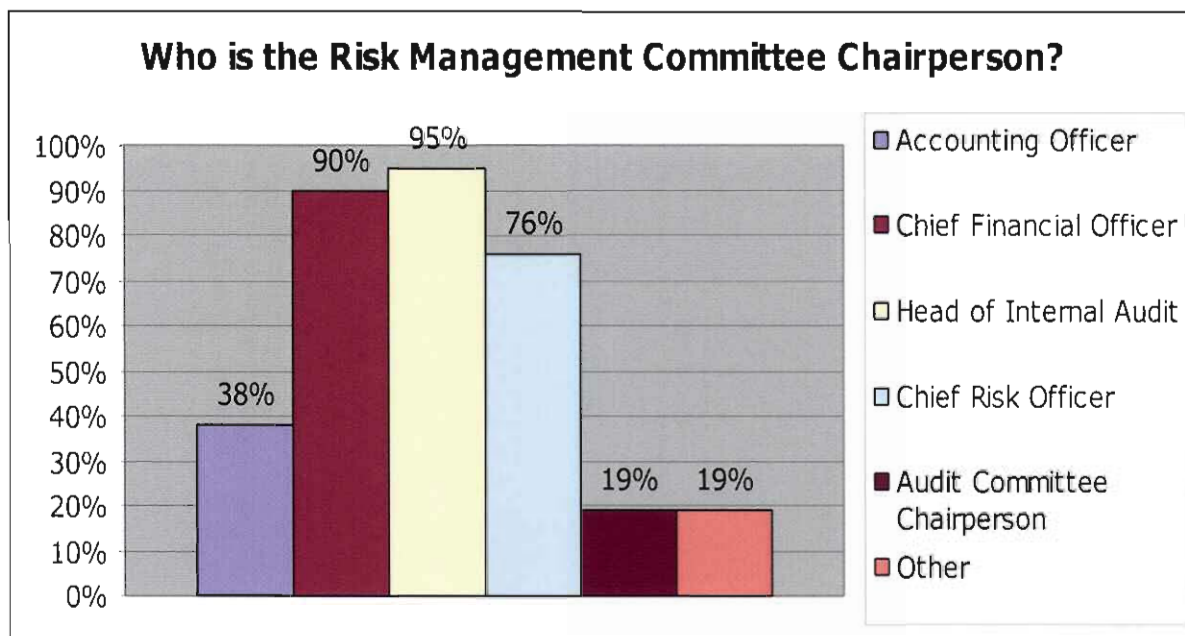
3.4.2.10. Question 13: Who chairs the Risk Management Committee?
(Tick all that apply)

Table 3.12 and Figure 3.13 below indicate the responses received on the question "Who are the members of the risk management committee?"

Table: 3.12. Risk Management Committee Chairperson

Risk Management Committee chairperson	Frequency (n=21)	Percentage
Accounting Officer	8	38%
Chief Financial Officer	19	90%
Head of Internal Audit	20	95%
Chief Risk Officer	16	76%
Audit Committee Chairperson	4	19%
Other	4	19%

Figure: 3.13. Risk Management Committee Chairperson



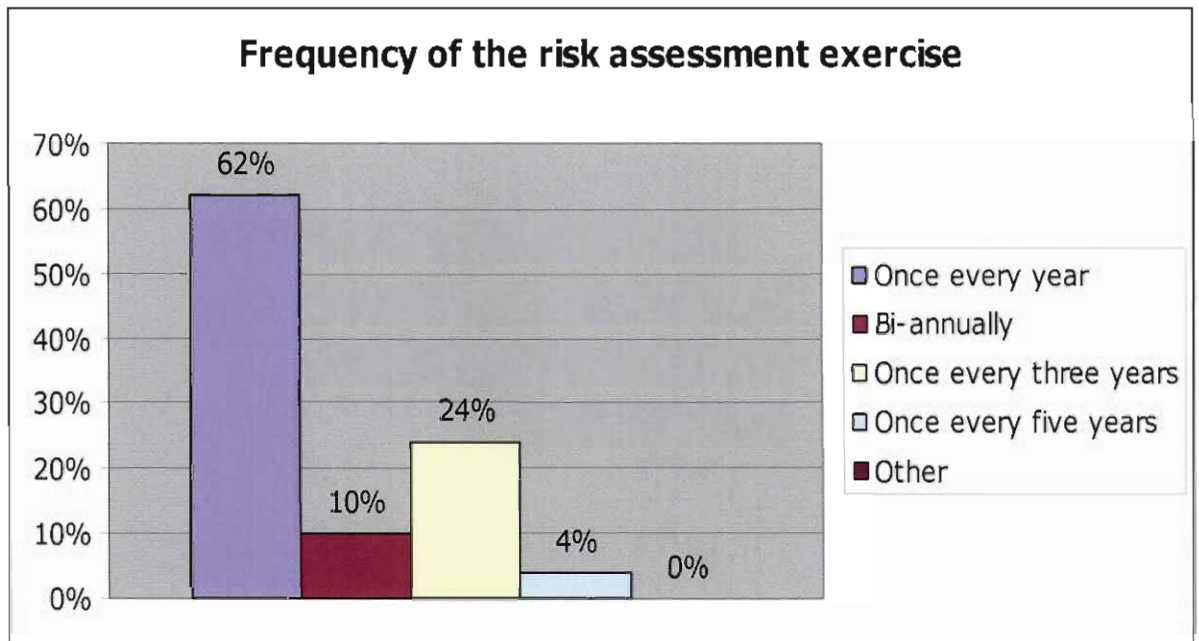
3.4.2.11. Question 14: How often has the department previously performed a strategic risk assessment exercise?

Table 3.13 and Figure 3.14 below indicate the responses received on the question "How often has the department previously performed a strategic risk assessment exercise?"

Table: 3.13. Frequency of the risk assessment exercise

Frequency of the risk assessment exercise	Frequency (n=29)	Percentage
Once every year	18	62%
Bi-annually	3	10
Once every three years	7	24%
Once every five years	1	4%
Other	0	0%
Total	29	100%

Figure: 3.14. Frequency of the risk assessment exercise



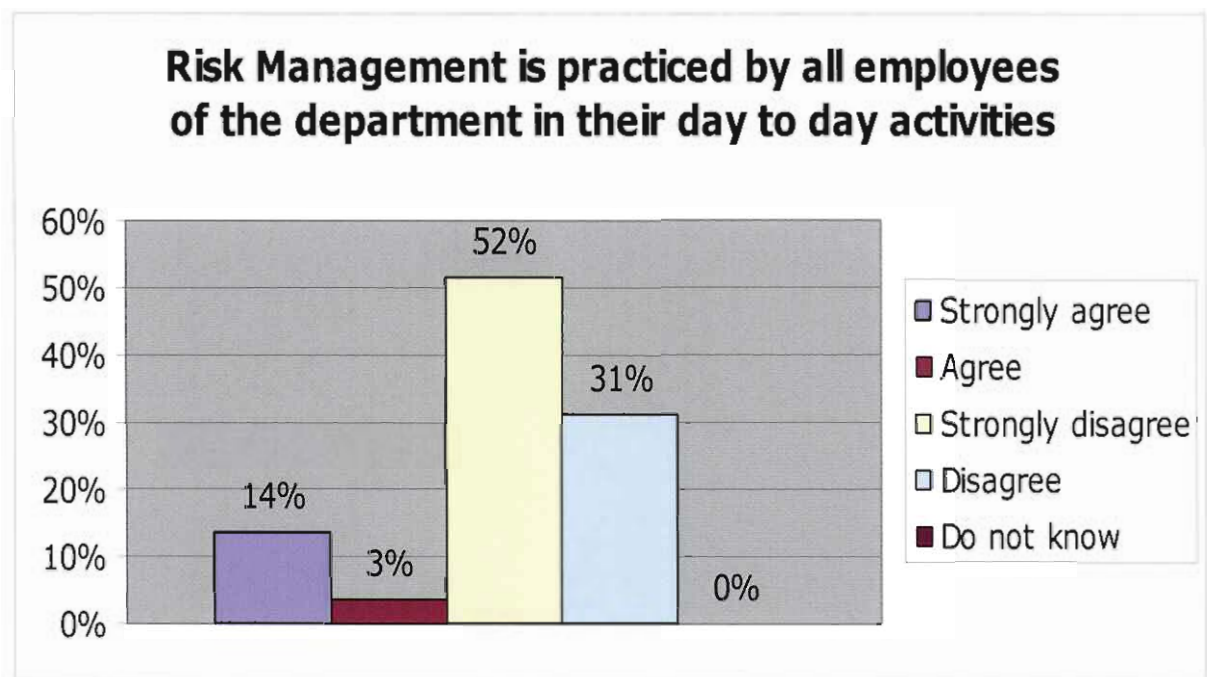
3.4.2.12. Question 15: Risk Management is practiced by all employees of the department in their day-to-day activities.

Table 3.14 and Figure 3.15 below indicate the responses received on the question "Risk management is practiced by all employees of the department in their day-to-day activities"

Table: 3.14. All employees practice risk management

All employees practice risk management	Frequency (n=29)	Percentage
Strongly agree	4	14%
Agree	1	4%
Strongly disagree	15	52%
Disagree	9	30%
Do not know	0	0%
Total	29	100%

Figure: 3.15. All employees practice risk management



3.4.3. Analysis of Section B results on Risk Management

- Forty five percent (45%) of the respondents indicated that the responsibility for risk management lies with the accounting officer, i.e. the Director General of the department, followed by 39% of those who said the Risk Management Committee is responsible. Ten percent (10%) said this responsibility lies with the Chief Financial Officer, followed by 3% of those who indicated that in their departments, the Chief Operations Officer is responsible for risk management process whereas the last 3% indicated that the audit committee is responsible. It is clear that the responsibility for risk management process should lie with the highest authority in the department. The King Committee (2002:30), states that the board is responsible for the total process of risk management. Contrary to this, the survey results show that, national departments have different accountabilities for risk management with other departments leaving the responsibility for risk management to lower level management such as the Chief Financial Officer or Chief Operations Officer which is a concerning issue. Refer to Table 3.3 and Figure 3.4.
- The research results indicate that the majority of the national departments (59%) do not have a risk management policy in place. Only 31% of the respondents indicated that their departments have a risk management policy in place, whereas 10% did not know if the policy was in place. This is a serious cause for concern as only 31% of the departments have the policy in place which indicates a low level acceptance of risk management principles. Refer to Table 3.4 and Figure 3.5.

- The literature review pointed to the importance of developing the risk strategy policies by the senior management of the organization. It is also of greater value that these policies should be clearly communicated to all employees to ensure that the risk strategy is incorporated into the culture and language of the organization and that risk management is practiced by everyone in the organization.
- Out of the 31% respondents who said their departments have a risk management policy in place, 67% stated that the risk appetite has not been clarified in the policy, whereas only 22% has indicated that it has been clarified. The remaining 11% was not aware as to whether this has been clarified or not. There is obviously a huge gap in that 67% of the departments did not specify their risk appetite. The organization's risk appetite is a fundamental factor in determining how it is going to handle and manage its risks. Refer to Table 3.5 and Figure 3.6.
- The results of the research also indicate that the overwhelming majority 86% (69% strongly disagree and 17% disagree) of the respondents did not believe that the risk management practices in their department supported good corporate governance. Ten percent (10%) agreed that their risk management processes are aligned to good corporate governance. The remaining 4% of the respondents did not know the position of their departments on this question. Refer to Table 3.7 and Figure 3.8.

- Table 3.8 (see also Figure 3.9) indicates that 72% of the respondents highlighted that their departments have established a Risk Management Committee. Twenty one percent (21%) however said no such committee is in place in their departments, with the remaining 7% being not aware of the existence of the committee. The King code of corporate practices and conduct recommends that a board committee should be appointed to assist in the reviewing of the risk management process (King Committee, 2002: 31). It is of concern that 21% of these departments do not have the Risk Management Committee established which means that there is still work that needs to be done to close the gap.
- 55% of the respondents indicated that there is a Risk Management unit established in their departments. 41% said there is no such a unit in their departments whereas 4% did not know what the position was in their departments. Refer to Table 3.9 and Figure 3.10.
- On the issue of frequency of risk management committee meetings, although the majority (76%) of departments indicated that the risk management committee meetings are held every quarter, a concern is from those respondents who said their committee meetings are held bi-annually (14%), once a year (5%) and three times a year (5%). Refer to Table 3.10 and Figure 3.11.
- As indicated by Table 3.11 (see also Figure 3.12), 95% of the respondents said their risk management committee is constituted of the Head of Internal Audit, Chief Financial Officer (90%), Chief

Risk Officer (76%), Accounting Officer (38%), Audit Committee Chairperson (19%) and Other (19%).

- On the question of who the chairperson of the risk management committee is, the respondents answered as follows: Head of Internal Audit (95%), Chief Financial Officers (90%), Chief Risk Officers (76%), Accounting Officers (38%) Audit Committee Chairperson (19%) and Other (19%). See Table 3.12 and Figure 3.13.
- 62% of the respondents indicated that their departments undertake a risk assessment process once every year, however, there are concerns are with those who said the process is only undertaken once every three years (24%) and once every five years (4%). The last group (10%) said it is undertaken bi-annually. Refer to Table 3.13 and Figure 3.14.
- According to the results of the research as indicated by Table 3.14 (see also Figure 3.15), the overwhelming majority of respondents 82% (52% strongly disagree and 30% disagree) indicated that risk management is not practiced by all staff in their daily activities. Only 18% (14% strongly agree and 4% agree) did agree that this is practiced by all employees in their day-to-day activities.

3.4.4. Section C: Implementation of Internal Audit activities in the department.

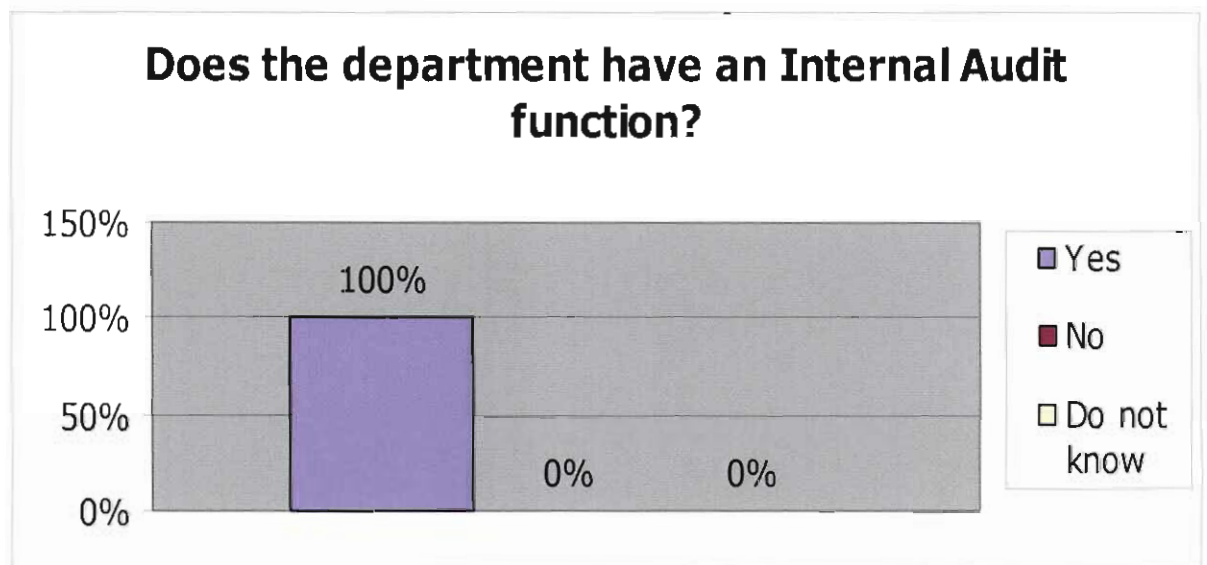
3.4.4.1. Question 16: Does the department have an Internal Audit function?

Table 3.15 and Figure 3.16 below indicate the responses received on the question "Does the department have an Internal Audit function?"

Table: 3.15. Internal Audit Function in place?

Internal Audit Function in place?	Frequency (n=29)	Percentage
Yes	29	100%
No	0	0%
Do not know	0	0%
Total	29	100%

Figure: 3.16. Internal Audit Function in place?



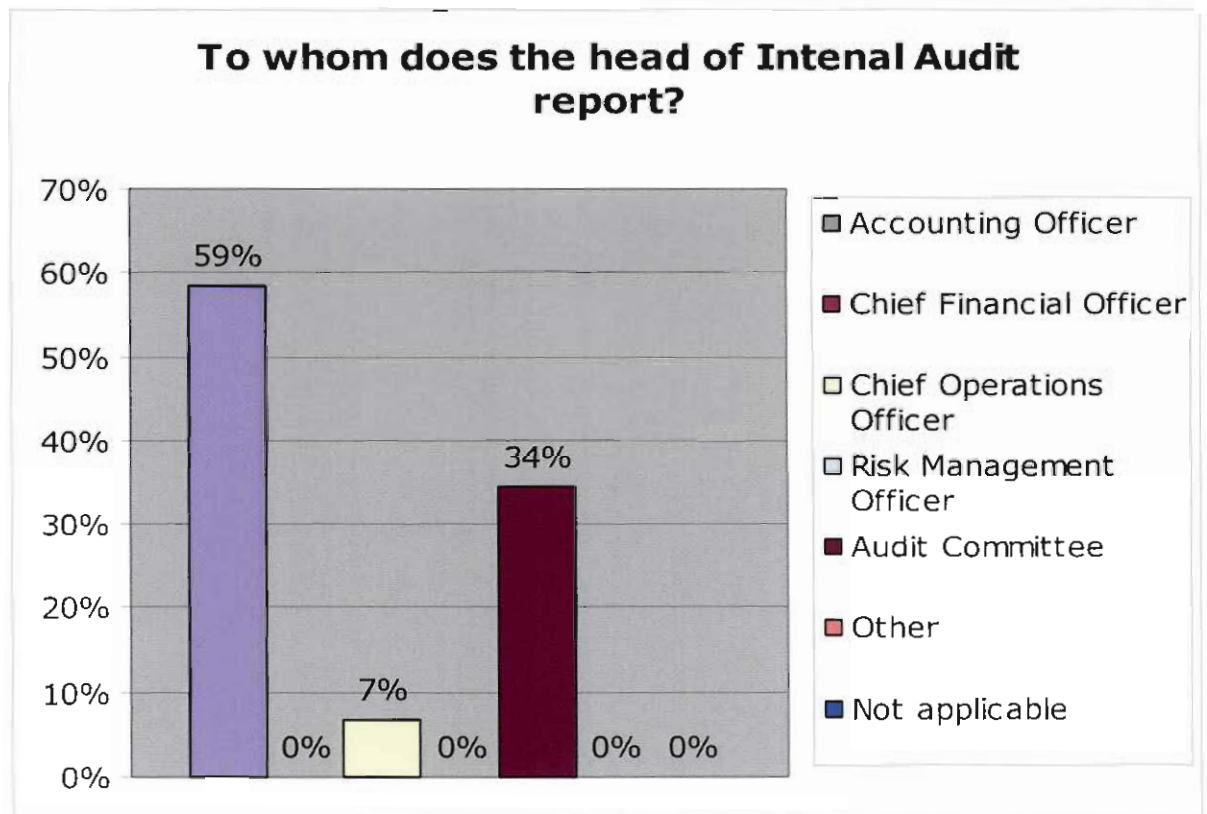
3.4.4.2. Question 17: If yes, to whom does the head of Internal Audit report?

Table 3.16 and Figure 3.17 below indicate the responses received on the question "If yes, to whom does the head of Internal Audit report?"

Table: 3.16. Head of Internal Audit reports to:

Head of Internal Audit reports to	Frequency (n=29)	Percentage
Accounting Officer	17	59%
Chief Financial Officer	0	0%
Chief Operations Officer	2	6%
Risk Management Committee	0	0%
Audit Committee	10	35%
Other	0	0%
Not applicable	0	0%
Total	29	100%

Figure: 3.17. Head of Internal Audit reports to:



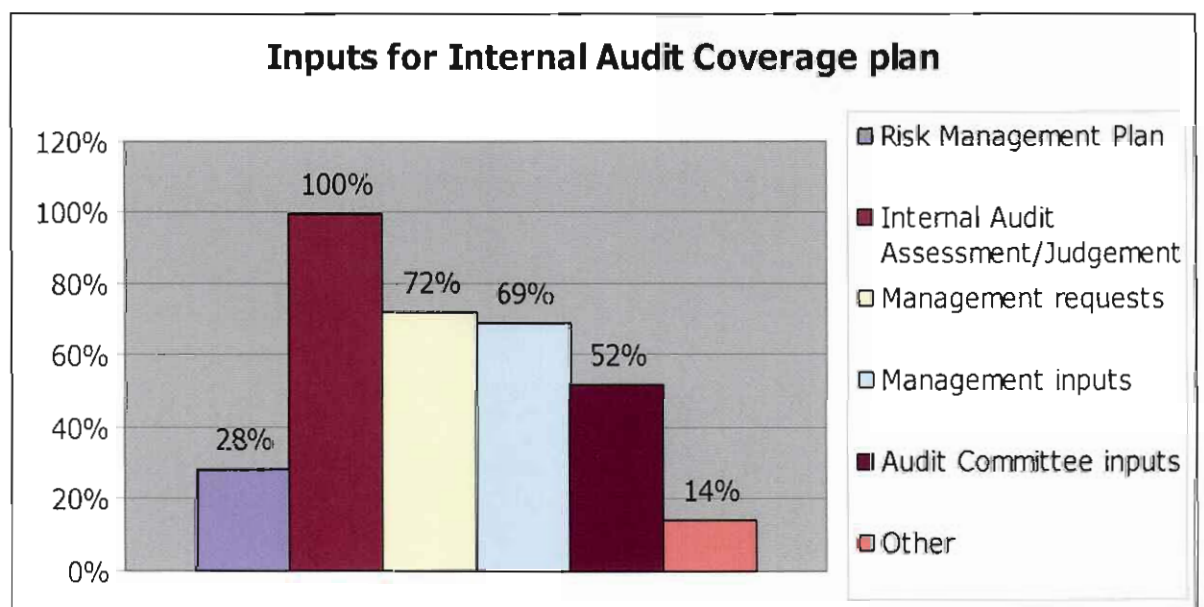
3.4.4.3. Question 18: The Internal Audit annual coverage plan is based on the following. (Tick all that apply).

Table 3.17 and Figure 3.18 below indicate the responses received on the question "The Internal Audit annual coverage plan is based on the following"

Table: 3.17. Internal Audit coverage plan includes inputs from

Inputs for coverage plan	Frequency (n=29)	Percentage
Risk management plan	8	28%
Internal Audit risk assessment/Judgment	29	100%
Management requests	21	72%
Management inputs	20	69%
Audit Committee inputs	15	52%
Other	4	14%

Figure: 3.18. Internal Audit coverage plan includes inputs from



3.4.5 Analysis of Section C results on Internal Audit

- The results of the research indicate that all the respondents' departments have Internal Audit functions in place, which is 100%. Refer to Table 3.15 and Figure 3.16.
- On the question of the Internal Audit reporting line, 59% of the respondents indicated that their Internal Audits report to the Accounting Officer whereas on the other hand, 34% said they report to the audit committee. However, 7% of the respondents indicated that their Internal Audits report to the Chief Operations Officer. It is a concern that 7% of these departments Internal Audit activities still report to a level lower than Accounting Officer such as Chief Operations Officer. The Standard 1110 (IIA Standards) requires that the Chief Audit Executive should report to a level within the organization that allows the Internal Audit activity to fulfil its responsibilities. This is therefore a gap which needs to be addressed. See Table 3.16 and Figure 3.17.
- Respondents were also asked what forms the inputs for Internal Audit coverage plan. 100% of the respondents said Internal Audit uses its judgement in compiling the coverage plan. 72% said management requests are taken into consideration while 69% said management input and 52% said audit committee input are included. However, it is concerning that only 28% indicated that risk management plan is taken in consideration while compiling the Internal Audit Coverage plan. See Table 3.17 and Figure 3.18.

3.4.6. Section D: Implementation of Audit Committee activities in the department.

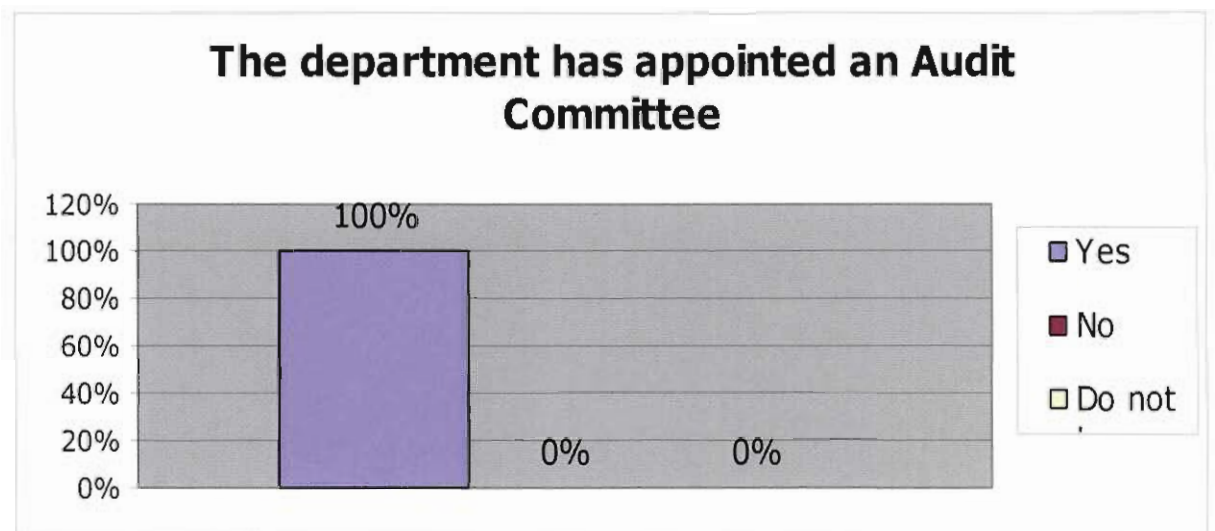
3.4.6.1. Question 19: Has the department appointed an audit committee?

Table 3.18 and Figure 3.19 below indicate the responses received on the question "Has the department appointed an audit committee?"

Table: 3.18. Has the department appointed an Audit Committee?

Audit Committee in place?	Frequency (n=29)	Percentage
Yes	29	100%
No	0	0%
Do not know	0	0%
Total	29	100%

Figure: 3.19. Audit Committee established?



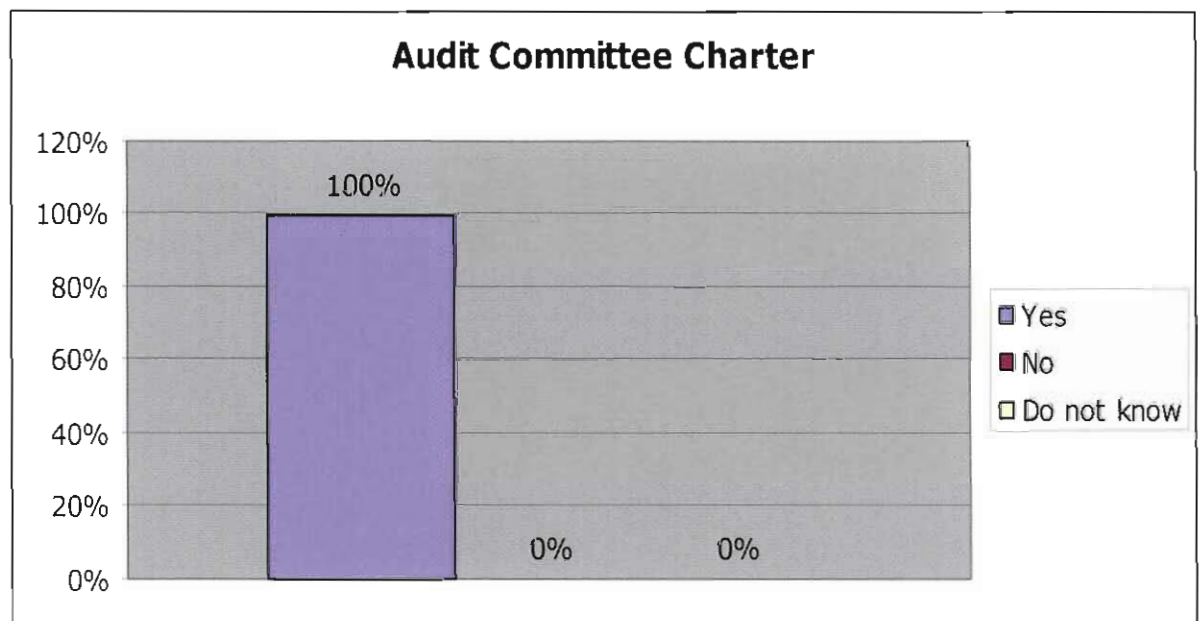
3.4.6.2. Question 20: Is the audit committee operating under a written charter? (Terms of Reference)

Table 3.19 and Figure 3.20 below indicate the responses received on the question "Is the audit committee operating under a written charter?"

Table: 3.19. Audit Committee Charter?

Audit Committee Charter?	Frequency (n=29)	Percentage
Yes	29	100%
No	0	0%
Do not know	0	0%
Total	29	100%

Figure: 3.20. Audit Committee Charter?



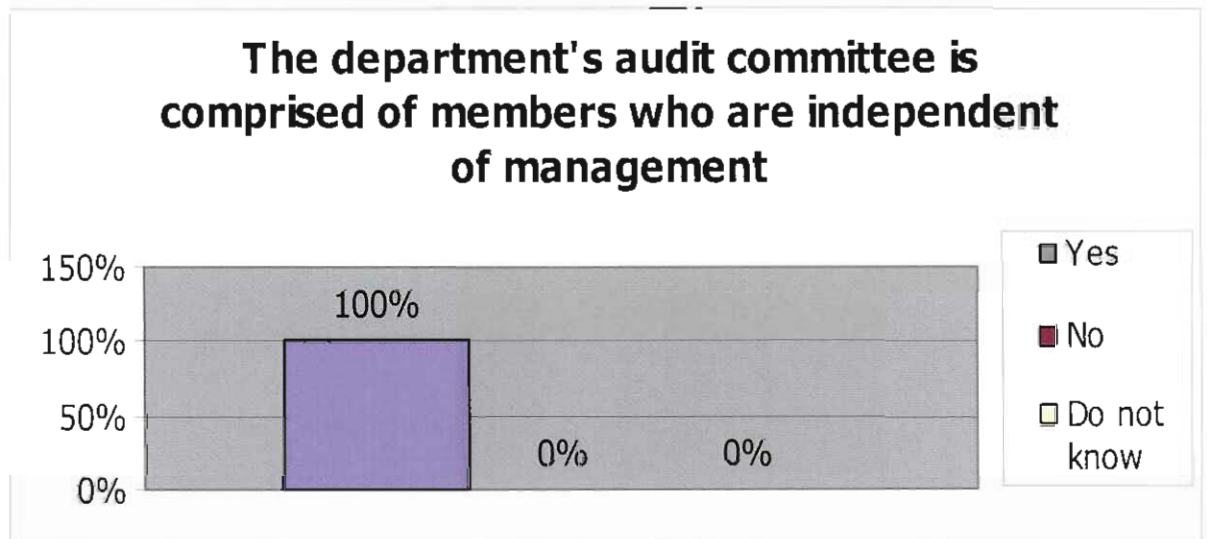
3.4.6.3. Question 21: Are the audit committee members independent of management?

Table 3.20 and Figure 3.21 below indicate the responses received on the question "Are the audit committee members independent of management?"

Table: 3.20. Audit Committee members are independent

Audit Committee members are independent	Frequency (n=29)	Percentage
Yes	29	100%
No	0	0%
Do not know	0	0%
Total	29	100%

Figure: 3.21. Audit Committee members are independent



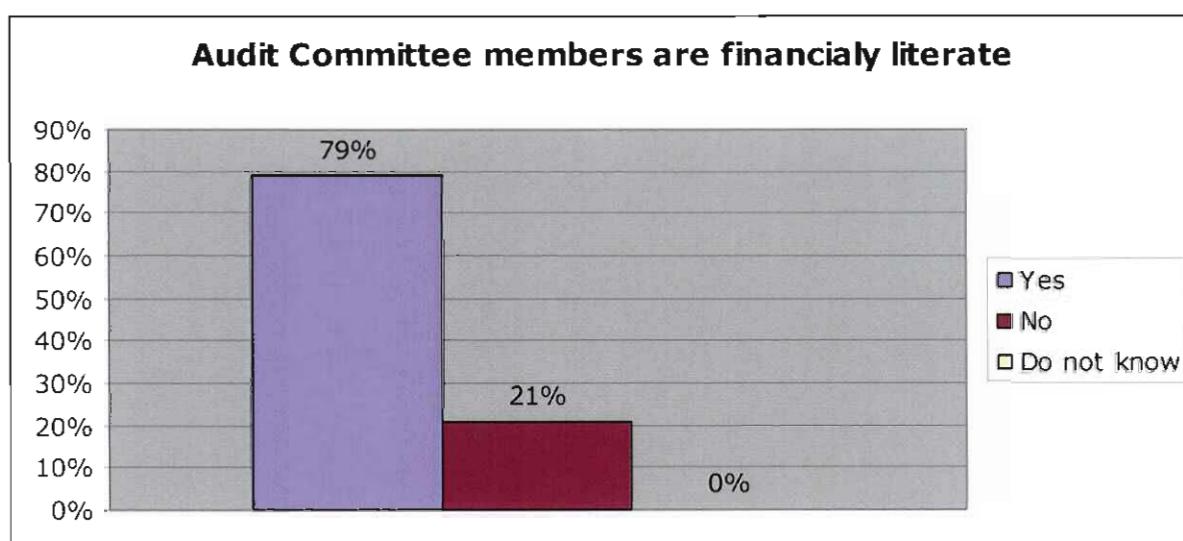
3.4.6.4. Question 22: Are the audit committee members financially literate?

Table 3.21 and Figure 3.22 below indicate the responses received on the question "Are the audit committee members financially literate?"

Table: 3.21. Audit Committee members are financially literate

Audit Committee members are financially literate	Frequency (n=29)	Percentage
Yes	23	79%
No	6	21%
Do not know	0	0%
Total	29	100%

Figure: 3.22. Audit Committee members are financially literate



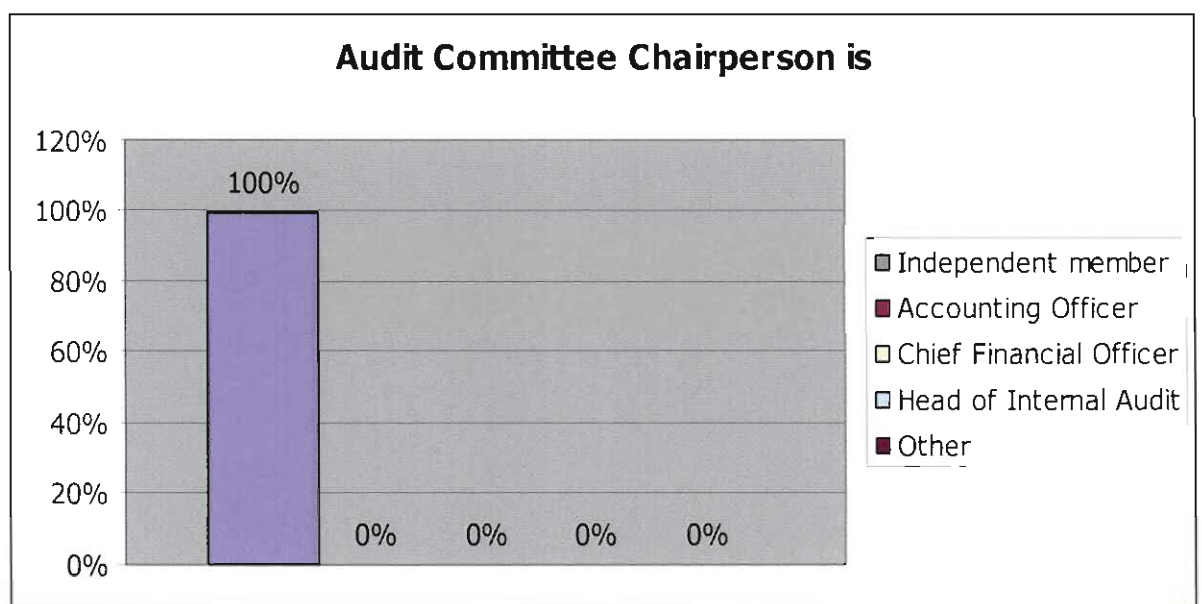
3.4.6.5. Question 23: The chairperson of the audit committee is.

Table 3.22 and Figure 3.23 below indicate the responses received on the question "The chairperson of the audit committee is."

Table: 3.22. Audit Committee Chairperson

Audit Committee Chairperson is	Frequency (n=29)	Percentage
Independent member	29	100%
Accounting Officer	0	0%
Chief Financial Officer	0	0%
Head of Internal Audit	0	0%
Other	0	0%
Total	29	100%

Figure: 3.23. Audit Committee Chairperson



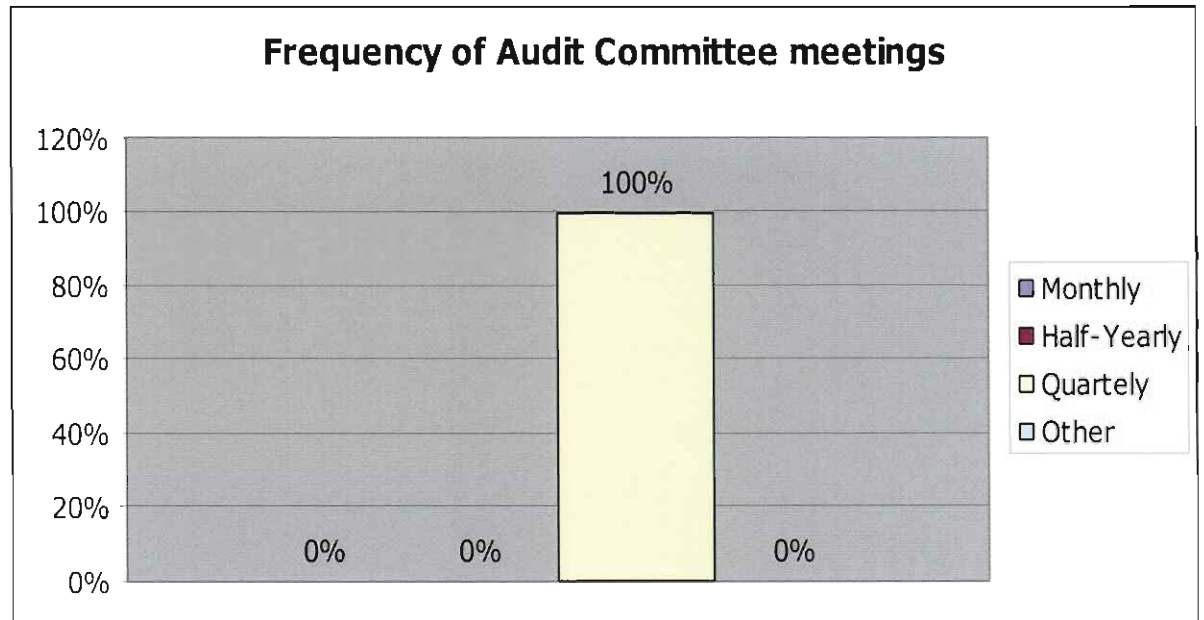
3.4.6.6. Question 24: How often does the audit committee meet in a year?

Table 3.23 and Figure 3.24 below indicate the responses received on the question "How often does the audit committee meet in a year?"

Table: 3.23. Frequency of Audit Committee Meetings

Frequency of Audit Committee meetings	Frequency (n=29)	Percentage
Monthly	0	0%
Half-yearly	0	0%
Quarterly	29	100%
Other	0	0%
Total	29	100%

Figure: 3.24. Frequency of Audit Committee Meetings



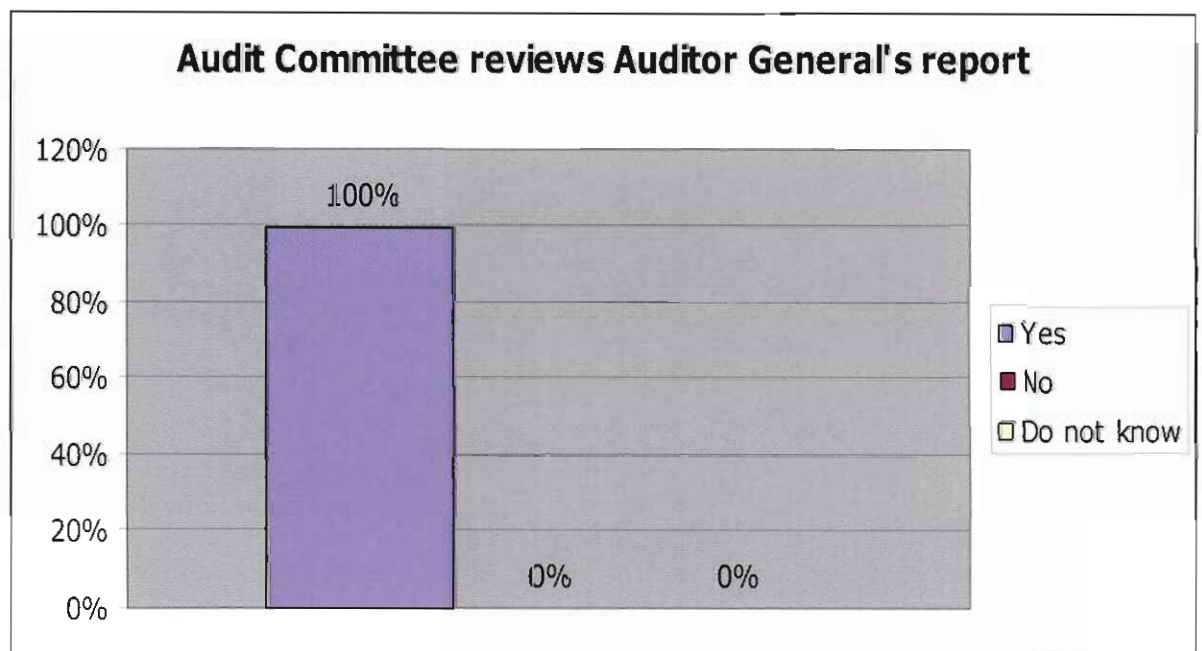
3.4.6.7. Question 25: The audit committee reviews the report of the Auditor General.

Table 3.24 and Figure 3.25 below indicate the responses received on the question “The audit committee reviews the report of the Auditor General”

Table: 3.24. Audit Committee reviews Auditor’s General report

Audit Committee reviews Auditor General’s report	Frequency (n=29)	Percentage
Yes	29	100%
No	0	0%
Do not know	0	0%
Total	29	100%

Figure: 3.25. Audit Committee reviews Auditor’s General report



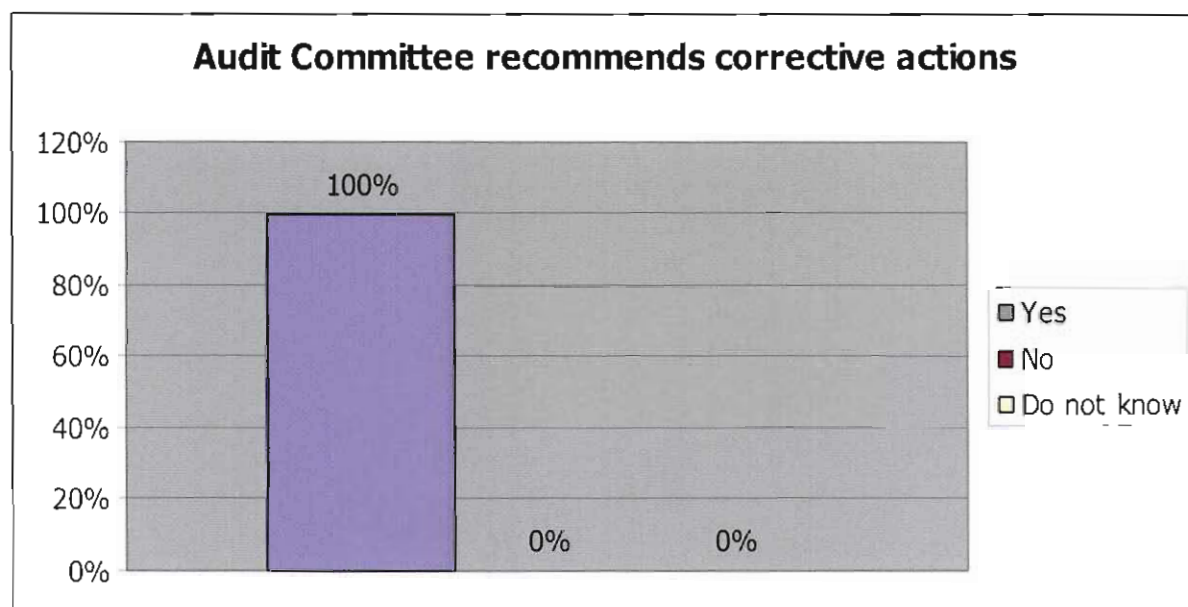
3.4.6.8. Question 26: The audit committee recommends to the Head of Department (HOD) any corrective actions to be taken regarding issues raised in the Auditor General's report.

Table 3.25 and Figure 3.26 below indicate the responses received on the question "The audit committee recommends to the Head of Department (HOD) any corrective actions to be taken regarding issues raised in the Auditor General's report"

Table: 3.25. Audit Committee recommends corrective action

Audit Committee recommends corrective action	Frequency (n=29)	Percentage
Yes	29	100%
No	0	0%
Do not know	0	0%
Total	29	100%

Figure: 3.26. Audit Committee recommends corrective action



3.4.7. Analysis of Section D results on Audit Committees

- The results of the research indicate that all (100%) of the respondents' departments have an Audit Committee in place of which its responsibilities are clarified in an audit committee charter (100%). Refer to Table 3.18 and Figure 3.19.
- 100% of the respondents agreed that their audit committee members, as well as the chairperson, are independent of management. See Table 3.20 and Figure 3.20. 79% of the respondents said their audit committee members are financially literate compared to 21% who said they are not. See Table 3.21 and Figure 3.22.
- 100% of respondents indicated that the audit committee meetings are held quarterly every year and that the audit committee reviews the Auditor General report on financial statements and recommends appropriate action to the Accounting Officer in taking corrective action. See Tables 3.24 and 3.25 as well as Figures 3.25 and 3.26.

3.4.8. Section E: Implementation of Fraud Prevention activities in the departments.

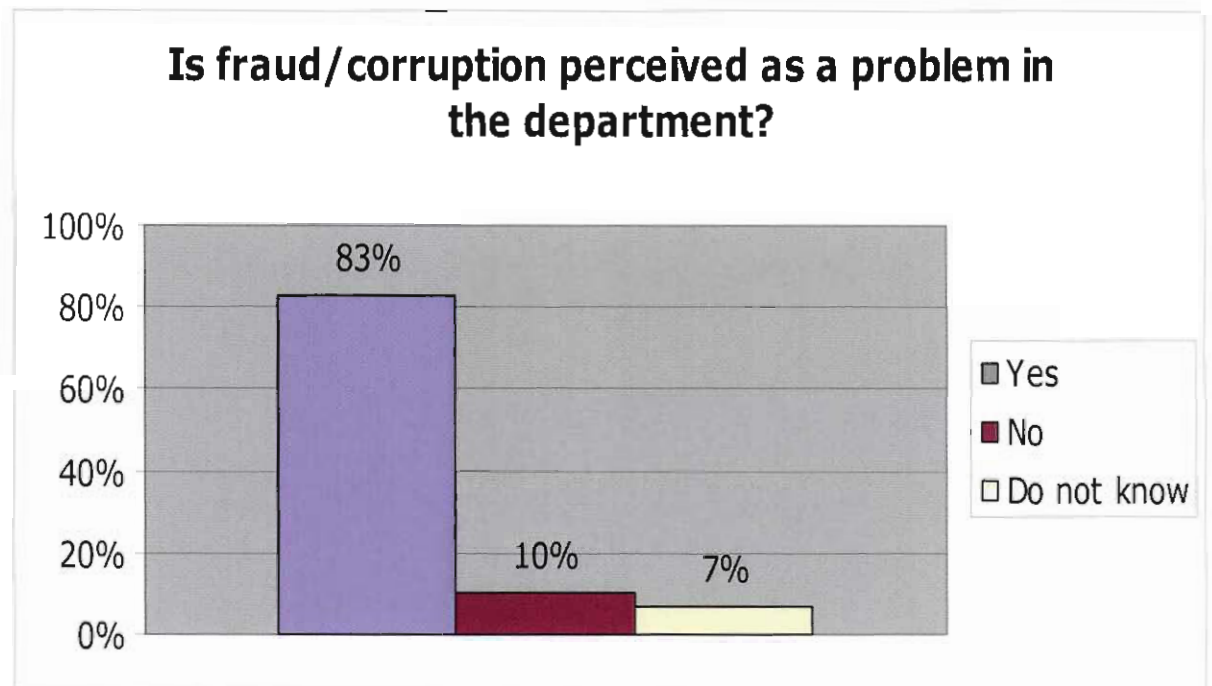
3.4.8.1. Question 27: Is fraud/corruption perceived as a problem in the department?

Table 3.26 and Figure 3.27 below indicate the responses received on the question "Is fraud/corruption perceived as a problem in the department?"

Table: 3.26. Prevalence of fraud/corruption

Prevalence of fraud/corruption	Frequency (n=29)	Percentage
Yes	24	83%
No	3	10%
Do not know	2	7%
Total	29	100%

Figure: 3.27. Prevalence of fraud/corruption



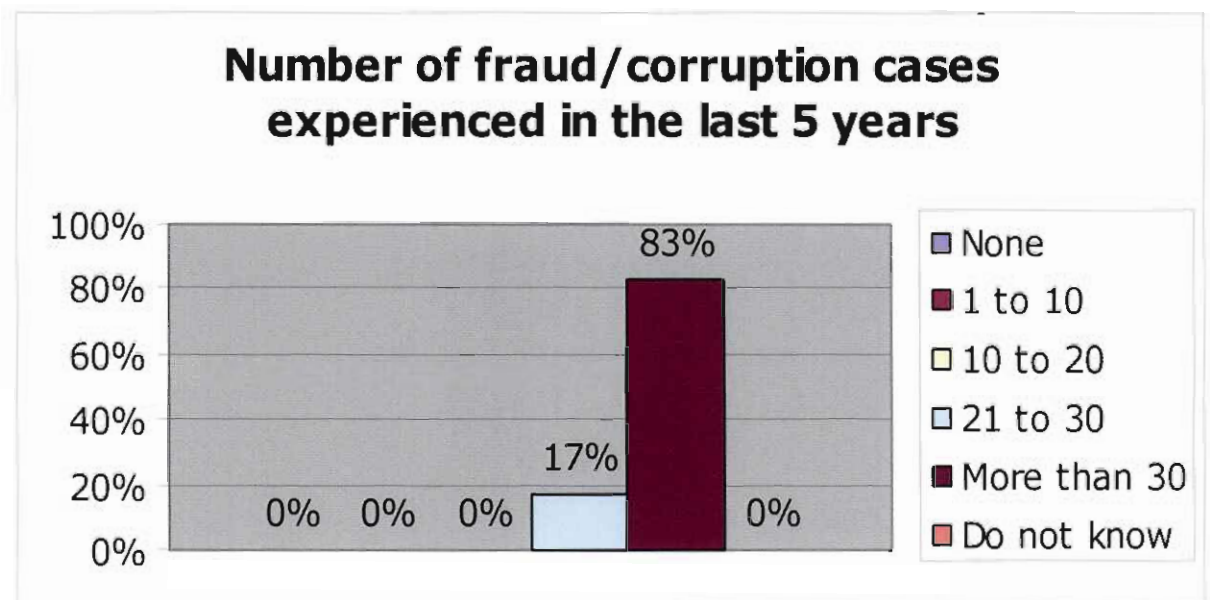
3.4.8.2. Question 28: Number of fraud/corruption cases experienced in the past 5 years?

Table 3.27 and Figure 3.28 below indicate the responses received on the question "Number of fraud/corruption cases experienced in the past 5 years"

Table: 3.27. Number of fraud/corruption cases

No of fraud/corruption cases	Frequency (n=29)	Percentage
None	0	0%
1-10	0	0%
11-20	0	0%
21-30	5	17%
More than 30	24	83%
Do not know	0	0%
Total	29	100%

Figure: 3.28. Number of fraud/corruption cases



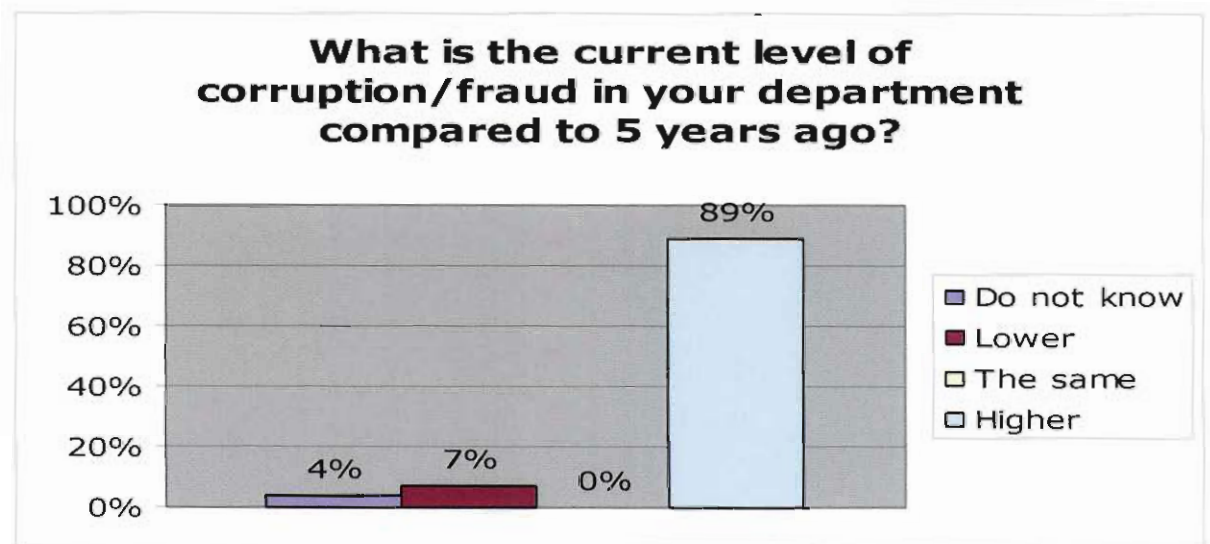
3.4.8.3. Question 29: What is the current level of corruption in your department compared to 5 years ago?

Table 3.28 and Figure 3.29 below indicate the responses received on the question "What is the current level of corruption in your department compared to 5 years ago?"

Table: 3.28. The level of fraud/corruption cases

The level of fraud/corruption	Frequency (n=29)	Percentage
Do not know	1	4%
Lower	2	7%
The same	0	0%
Higher	26	89%
Total	29	100%

Figure: 3.29. The level of fraud/corruption cases



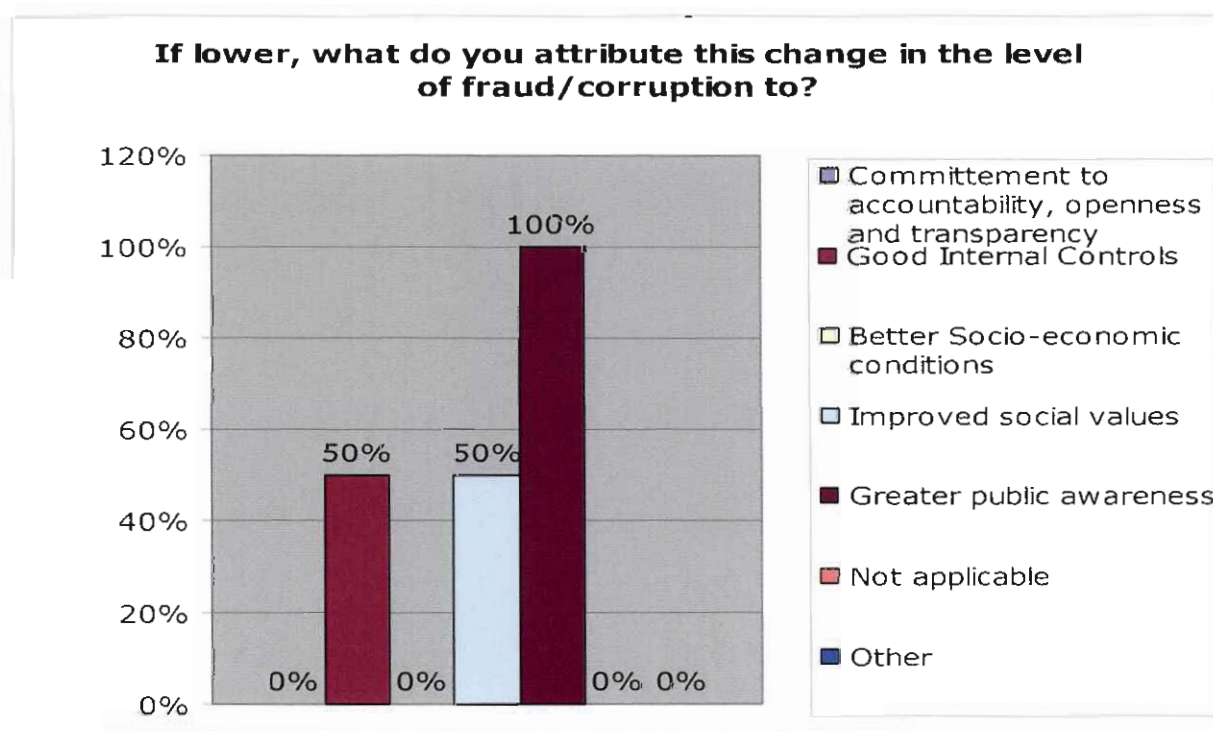
3.4.8.4. Question 30: If lower, what do you attribute this change in the level of corruption to? (Tick all boxes that apply)

Table 3.29 and Figure 3.30 below indicate the responses received on the question "If lower, what do you attribute this change in the level of corruption to?"

Table: 3.29. Factors attributable to lower level of corruption

Factors contributing to lower fraud/corruption	Frequency (n=2)	Percentage
Commitment to accountability, openness and transparency	0	0%
Good Internal Controls	1	50%
Better socio-economic conditions	0	0%
Improved Social values	1	50%
Greater public awareness	2	100%
Not applicable	0	0%
Other (Specify)	0	0%

Figure: 3.30. Factors attributable to lower level of corruption



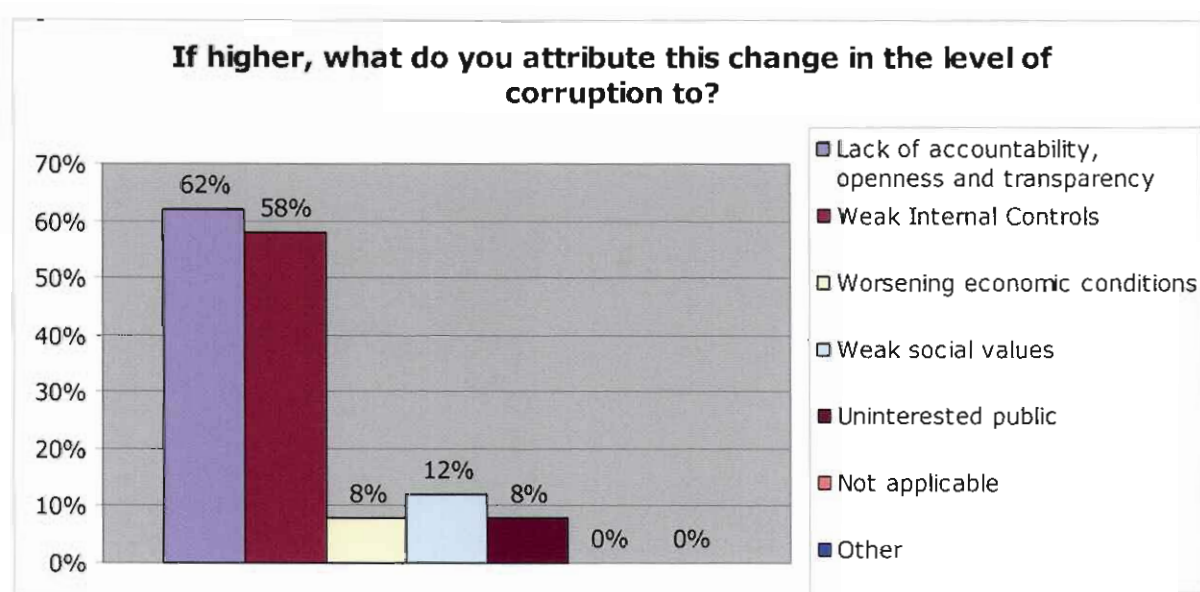
3.4.8.5. Question 31: If higher, what do you attribute this change in the level of corruption to? (Tick all that apply)

Table 3.30 and Figure 3.31 below indicate the responses received on the question "If higher, what do you attribute this change in the level of corruption to?"

Table: 3.30. Factors attributable to higher level of fraud/corruption

Factors contributing to higher fraud/corruption	Frequency (n=26)	Percentage
Lack of accountability, openness and transparency	16	62%
Weak Internal Controls	15	58%
Worsening economic conditions	2	8%
Weak Social values	3	12%
Uninterested public	2	8%
Not applicable	0	0%
Other (Specify)	0	0%

Figure: 3.31. Factors attributable to higher level of fraud/corruption



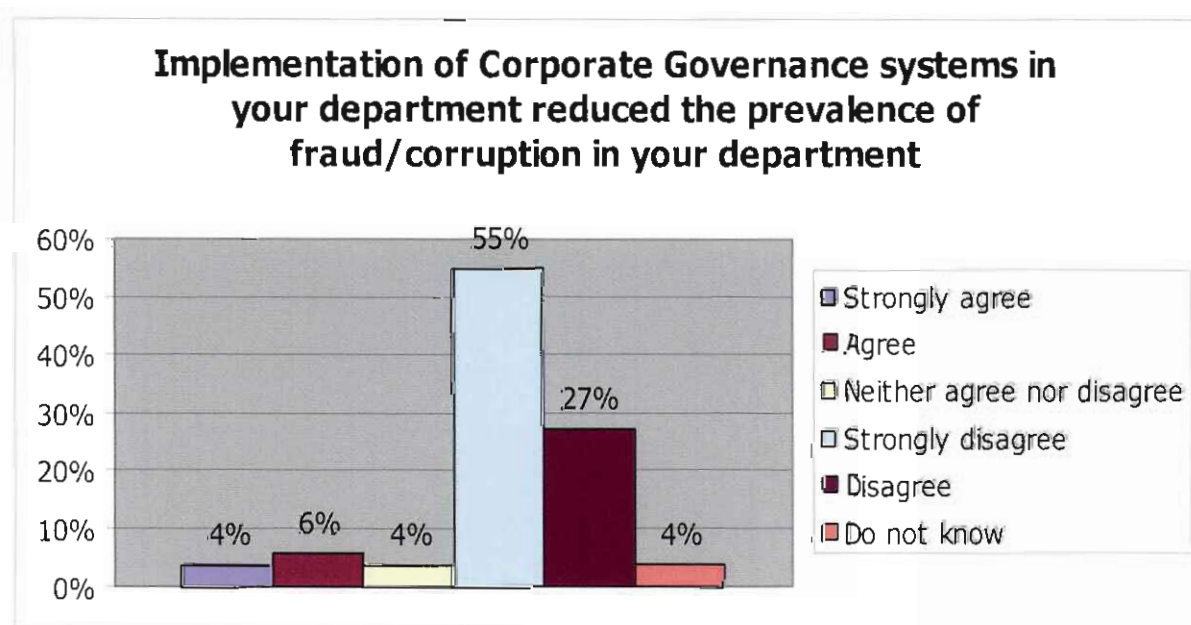
3.4.8.5. Question 32: Implementation of corporate governance systems in your department reduced the prevalence of fraud/corruption in your department.

Table 3.31 and Figure 3.32 below indicate the responses received on the question "Implementation of corporate governance systems in your department reduced the prevalence of fraud/corruption in your department."

Table: 3.31. Corporate Governance systems reduced fraud/corruption

Corporate governance systems reduced fraud/corruption prevalence	Frequency (n=29)	Percentage
Strongly agree	1	4%
Agree	2	6%
Neither agree nor disagree	1	4%
Strongly disagree	16	55%
Disagree	8	27%
Do not know	1	4%
Total	29	100%

Figure: 3.32. Corporate Governance systems reduced fraud/corruption



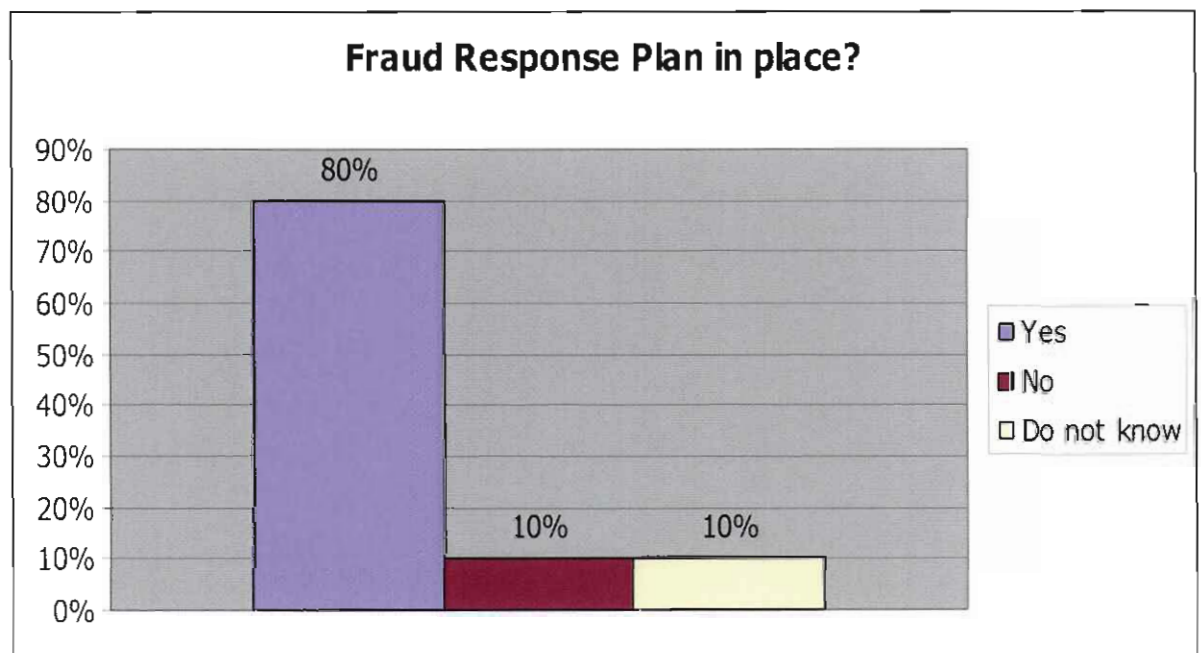
3.4.8.6. Question 33: Does your department have a fraud response plan?

Table 3.32 and Figure 3.33 below indicate the responses received on the question "Does your department have a fraud response plan?"

Table: 3.32. A fraud response plan in place

A fraud Response plan in place	Frequency (n=29)	Percentage
Yes	23	80%
No	3	10%
Do not know	3	10%
Total	29	100%

Figure: 3.33. A fraud response plan in place



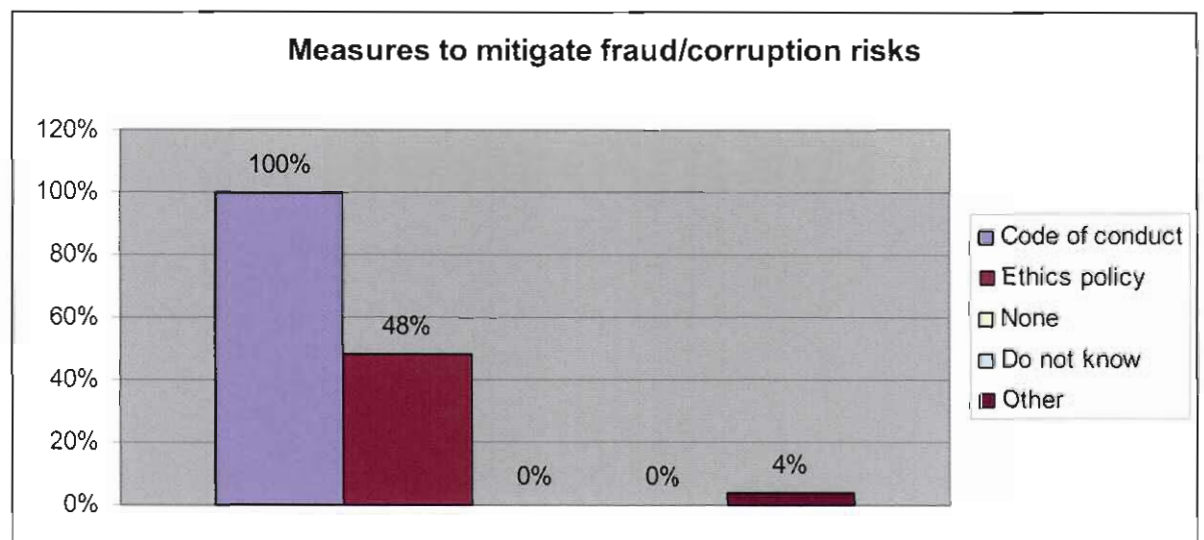
3.4.8.7. Question 34: Measures adopted by the department to mitigate risk of fraud/corruption. (Tick all that apply)

Table 3.33 and Figure 3.34 below indicate the responses received on the question "Measures adopted by the department to mitigate risk of fraud/corruption."

Table: 3.33. Measures to mitigate fraud risk

A fraud Response plan in place	Frequency (n=29)	Percentage
Code of conduct	29	100%
Ethics policy	14	48%
None	0	0
Do not know	0	0
Other	1	4%

Table: 3.34. Measures to mitigate fraud risk



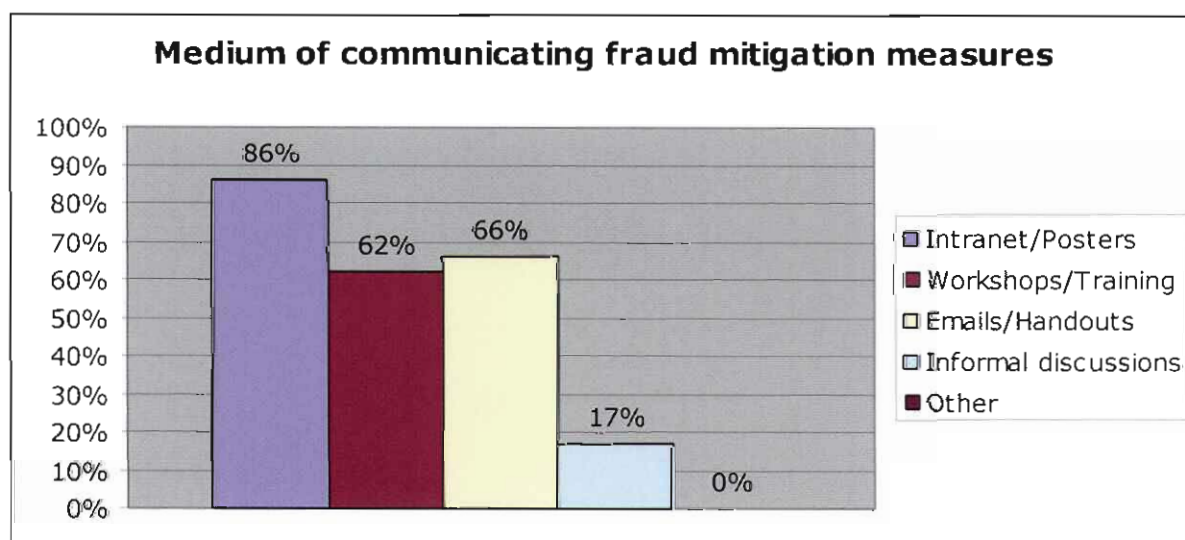
3.4.8.8. Question 35: How are these measures communicated to the employees? (Tick all that apply)

Table 3.34 and Figure 3.35 below indicate the responses received on the question "How are these measures communicated to the employees?"

Table: 3.34. Medium of communicating fraud mitigating measures

Medium of communication	Frequency (n=29)	Percentage
Intranet/Posters	25	86%
Workshops/Training	18	62%
Emails/Handouts	19	66%
Informal discussions	5	17%
Other	0	0%

Figure: 3.35. Medium of communicating fraud mitigating measures



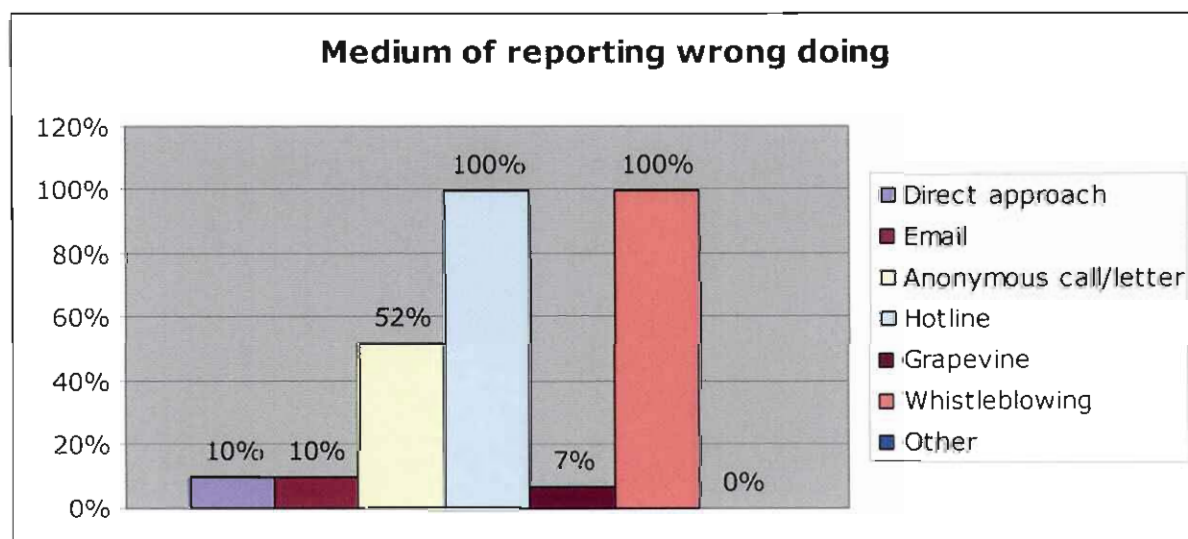
3.4.8.9. Question 36: What is the medium available to employees in the department to report wrong doing? (Tick all that apply)

Table 3.35 and Figure 3.36 below indicate the responses received on the question "What is the medium available to employees in the department to report wrongdoing?"

Table: 3.35. Medium of reporting wrongdoing

Medium of reporting wrong doing	Frequency (n=29)	Percentage
Direct approach	3	10%
Email	3	10%
Anonymous call/letter	15	52%
Hotline	29	100%
Grapevine	2	7%
Whistleblowing	29	100%
Other	0	0%

Figure: 3.36. Medium of reporting wrongdoing



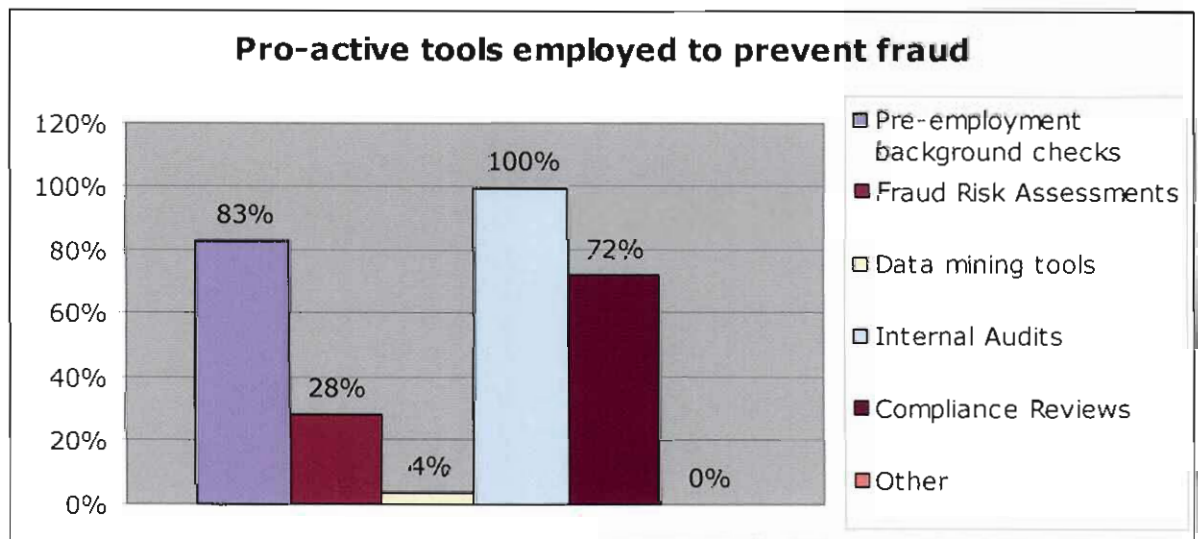
3.4.8.10. Question 37: What proactive tools or steps have been employed to detect or prevent fraud? (Tick all that apply)

Table 3.36 and Figure 3.37 below indicate the responses received on the question "What proactive tools or steps have been employed to detect or prevent fraud?"

Table: 3.36. Pro-active tools employed to prevent fraud

Pro-active tools employed to prevent fraud	Frequency (n=29)	Percentage
Pre-employment background checks	24	83%
Fraud risk assessments	8	28%
Data mining tools	1	4%
Internal Audits	29	100%
Compliance reviews	21	72%
Other	0	0%

Figure: 3.37. Pro-active tools employed to prevent fraud



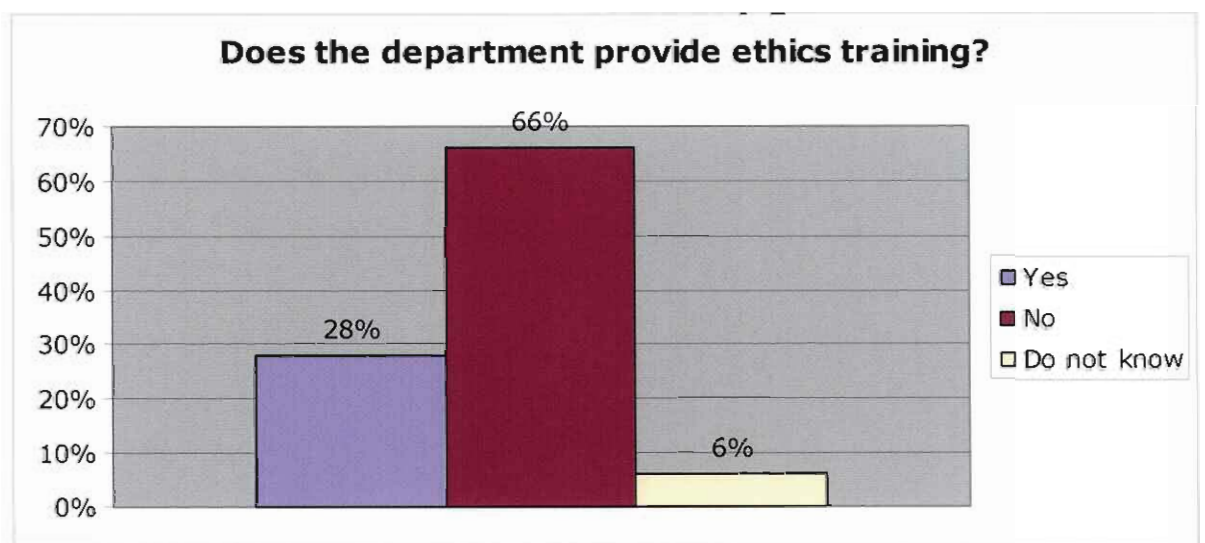
3.4.8.11. Question 38: Does the department provide ethics training?

Table 3.37 and Figure 3.38 below indicate the responses received on the question "Does the department provide ethics training?"

Table: 3.37. Staff trained on ethics?

Staff trained on ethics?	Frequency (n=29)	Percentage
Yes	8	28%
No	19	66%
Do not know	2	6%
Total	29	100%

Figure: 3.38. Staff trained on ethics?



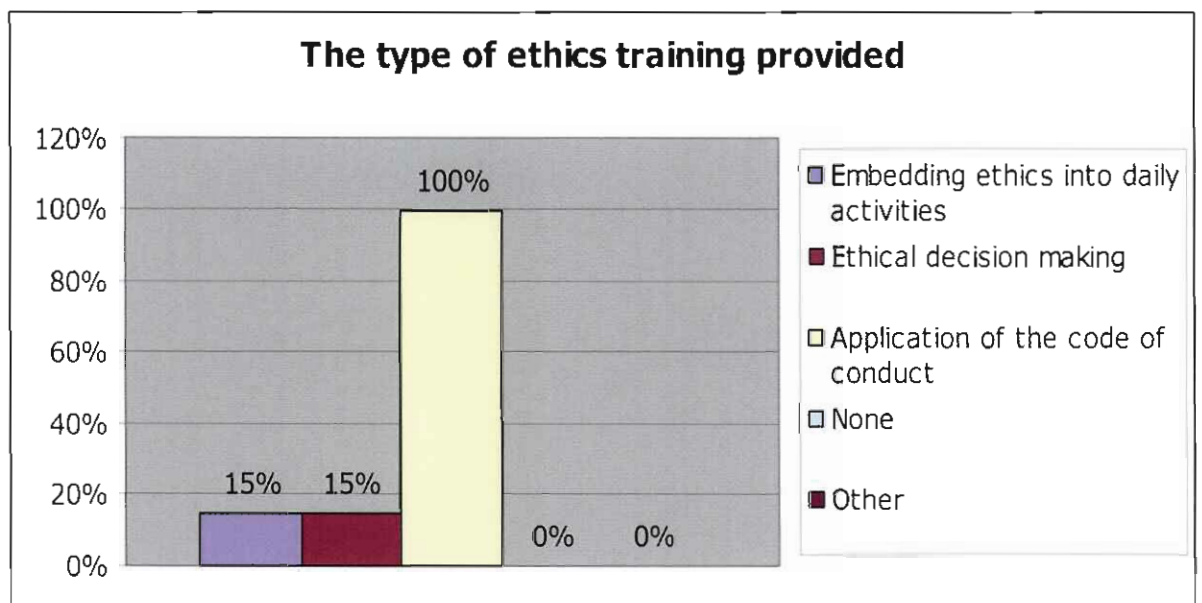
3.4.8.12. Question 39: What type of ethics training does your department provide? (Tick all that apply)

Table 3.38 and Figure 3.39 below indicate the responses received on the question "What type of ethics training does your department provide?"

Table: 3.38. The type of ethics training

The type of ethics training	Frequency (n=8)	Percentage
Embedding ethics into daily activities	1	15%%
Ethical decision making	1	15%%
Application of the code of conduct	8	100%
None	0	0%
Other	0	0%

Figure: 3.39. The type of ethics training



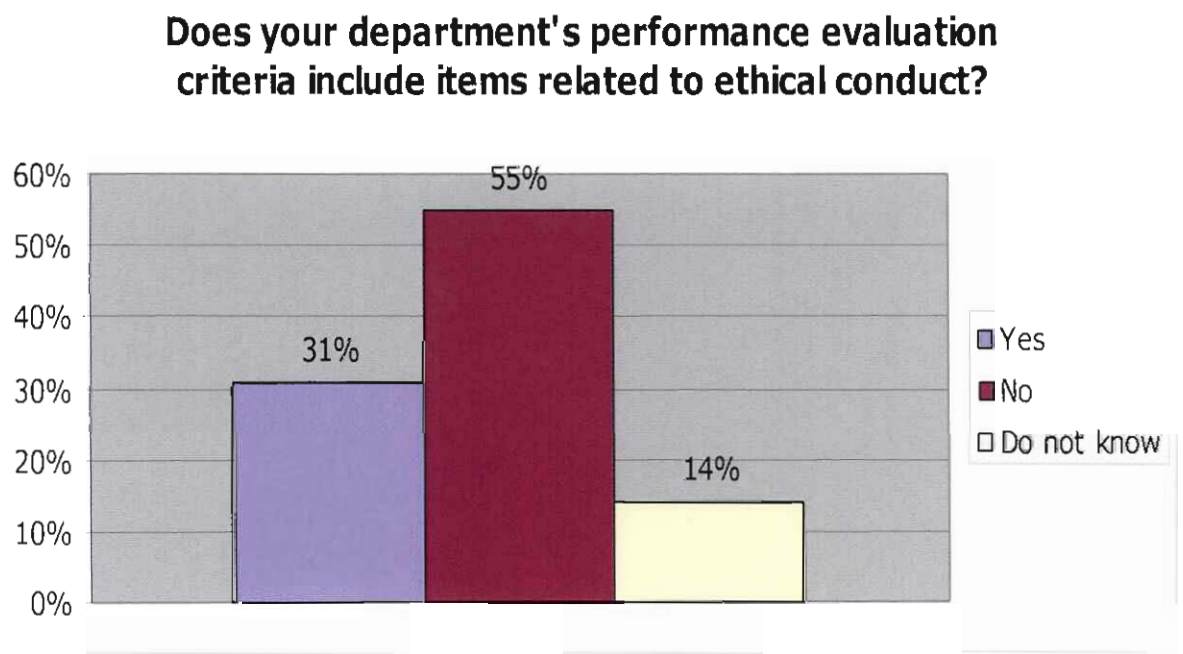
3.4.8.13. Question 40: Does your department's performance evaluation criteria include items related to ethical conduct?

Table 3.39 and Figure 3.40 below indicate the responses received on the question "Does your department's performance evaluation criteria include items related to ethical conduct?"

Table: 3.39. Performance evaluation criteria include ethics?

Do the performance evaluation criteria include ethics?	Frequency (n=29)	Percentage
Yes	9	31%
No	16	55%
Do not know	4	14%
Total	29	100%

Figure: 3.40. Performance evaluation criteria include ethics?



3.4.9. Analysis of Section E on Fraud Prevention

- As shown by the Table 3.26 (see also Figure 3.27), 83% of respondents indicated that they perceived corruption as a problem in their departments and only 10% said it is not perceived to be a problem. 7% did not know whether corruption was a problem or not.
- Respondents were asked to indicate the number of fraud/corruption cases experienced in their departments in the last five years. 83% indicated that their departments experienced more than 30 cases of fraud/corruption in the last five years. 17% indicated that their departments experienced between 21 and 30 cases. See Table 3.27 and Figure 3.28.
- Respondents were asked what they perceive to be the level of fraud and corruption in their departments compared to the last five years. 89% believed that the corruption/fraud level is currently higher than it was five years ago compared to only 7% who said it was lower. 4% did not know. See Table 3.28 and Figure 3.29.
- Those who said the level of corruption was perceived to be lower, were further asked the question as to what could be the factors contributing to this lower level. 100% said it was due to greater public awareness and 50% attributed this to good internal controls whereas the last 50% said improved social values were the cause. See Table 3.29 and Figure 3.30.

- Those respondents who said the level of corruption was perceived to be higher, were further asked the question as to what could be the factors contributing to this higher level. 62% said lack of accountability, openness and transparency were the causes whereas 58% attributed weak controls to these higher levels. 12% said this was due to weak social values whilst 8% said worsening economic conditions were the cause. The last 8% believed that this was due to lack of interest by the public. See Table 3.30 and Figure 3.31.
- The respondents were asked whether they believed that implementation of good governance systems in their departments reduced the prevalence of fraud/corruption. 82% of the respondents said no whereas 10% agreed and the remaining 8% neither agreed nor disagreed or did not know. See Table 3.31 and Figure 3.32.
- When asked whether there was a fraud response plan in place in their departments, 80% of the respondents said yes compared to 10% who said no. The remaining 10% did not know. See Table 3.32 and Figure 3.33.
- Respondents were also asked what measures are implemented in their departments to mitigate the risk of fraud. 100% said code of conduct was in place. 48% said an ethics policy was implemented whereas 4% said other measures such as internal audit were used as a measure to mitigate the risk of fraud. See Table 3.33 and Figure 3.34.

- On the question of what medium is available to communicate the measures for mitigating fraud/corruption to employees, 86% said posters/intranet is used, 66% said handouts/emails are used, 62% said workshops/training, and 17% said informal discussions. See Table 3.34 and Figure 3.35.
- Respondents were asked what medium is there to report wrong doing in their departments. 100% said Hotline, 100% whistleblowing, 52% said anonymous call/letter, 10% said direct approach, 10% said using email and lastly 7% said grapevine method is acceptable. See Table 3.35 and Figure 3.36.
- Respondents were asked as to whether there are proactive tools employed in the departments to prevent fraud/corruption. 83% said they employ pre-employment background checks, 100% said Internal Audits, 72% said compliance reviews are undertaken, 28% said they do fraud risk assessments and only 4% said they employ data mining methods. See Table 3.36 and Figure 3.37.
- Respondents were asked if their departments provided ethics training. 66% said ethics training is not provided. 28% said they are trained on ethics whereas 6% said they do not know if such training is provided or not. See Table 3.37 and Figure 3.38.
- Those respondents who said ethics training is provided were further asked about the type of training their departments provide on ethics. 100% of these respondents said ethics

training is provided on the application of the code of conduct, 15% said training is on embedding ethics into the daily activities, whereas 15% said training is on making ethical decision. See Table 3.38 and Figure 3.39.

- Lastly, respondents were asked whether performance evaluation criteria adopted by their departments included ethics. Only 31% said yes, 55% said ethics are not included as performance criteria, whereas 14% did not know. See Table 3.39 and Figure 3.40.

3.5. CONCLUSION

In this chapter, the survey results were reported and discussed. These results will be further discussed in the next chapter when conclusions and recommendations are made.

It has been observed from these results that there has been a positive step towards fully implementing good governance principles taken by the majority of government department in line with the requirements of various legislations and the King II Report on Corporate Governance for South Africa. Hopefully this positive step will contribute positively towards fighting fraud and corruption in these public sector institutions.

However, as the results have shown, there is still room for improvement on other critical good governance issues on which the majority of national government departments were found wanting.

CHAPTER 4: CONCLUSIONS AND RECOMMENDATIONS

4.1. INTRODUCTION

The main purpose of this study was to investigate the extent of implementation of the King II Report on Corporate Governance for South Africa by the national government departments of the South African public sector. Conclusions and recommendations made in this chapter are based on the research data presented in Chapter 2 and 3.

The purpose of this chapter is to make interpretations, conclusions and recommendations as found in the investigation. The chapter is structured similarly with the sections found in the questionnaire and the researcher will firstly focus on the conclusions and thereafter recommendations will be made.

4.2. CONCLUSIONS

The conclusions made in this chapter are formulated based on the research objectives as restated below:

- (I). To establish the extent of implementation of the recommendations of the King II Report on Corporate Governance for South Africa in the public sector focusing on national departments.
- (II). To establish if there is still some work that needs to be done by the authorities in these national departments with regard to issues of corporate governance.

(III). To determine how the implementation of the King II Report on Corporate Governance for South Africa in 2002 has contributed to the fight against corruption in the South African Public Sector with specific focus on national departments.

With regard to the attainment of the first two study objectives as highlighted above, the following conclusions are made:

4.2.1. Risk Management

This is an area of serious concern regarding the extent of implementation as shown by the results in chapter 3. Although there has been a positive step taken by the majority of departments to implement risk management processes, there is still a lot that needs to be done in order to fully implement the requirements of the King II Report on risk management. See Table 4.1.

The following are the positive aspects identified by the study:

- The majority (72%) of departments have established Risk Management Committees.
- 55% of the respondents indicated that there is a Risk Management unit established in their departments.
- Risk management committee meetings are held every quarter.

The following are the gaps identified by the study on which national departments should improve:

- Responsibility for risk management processes still lies with lower level management such as Chief Financial Officers and Chief Operations Officers.
- The majority of the national departments (59%) do not have a risk management policy in place.
- Risk appetite for most departments is not clearly defined.
- It is concerning that there are still some departments that undertake the risk assessment process once every three years (24%), and some once every five years (4%).

4.2.2. Internal Audit

By and large, the Internal Audit aspect appears to be satisfactorily implemented in many of the researched government departments.

The following are the positive aspects identified by the study regarding the aspect of Internal Audit:

- The majority of departments have established an Internal Audit function.
- The majority of Internal Audit functions report to the Accounting Officer (Administratively) and to the Audit Committee (Functionally). There is however, a gap in that 7% of the respondents indicated that their Internal Audits report to the Chief Operations Officer.

The following gaps were identified with regard to Internal Audit.

- There is still Internal Audit functions (7%) reporting to the Chief Operations Officers in the departments.
- Internal Audit coverage plans are not fully risk based in that only 28% of the respondents said risk management plans are taken into consideration when developing an Internal Audit Coverage Plan.

4.2.3. Audit Committees

Similar to Internal Audit, the Audit Committee aspect seems to be, in general, satisfactorily implemented in many of the government departments.

The following are the positive aspects identified by the study regarding the aspect of Audit Committees:

- Audit Committees are implemented by all national departments.
- Audit Committee members are independent of management.
- Audit Committee meetings are held quarterly every year.

There were no serious gaps have been identified on the aspect of Audit Committees.

4.2.4. Ethics (Fraud Prevention)

The following are the positive aspects identified by the study regarding the aspect of Fraud Prevention:

- Fraud response plans are implemented by the majority of the departments.
- All the departments have implemented a code of conduct as a measure to mitigate the risk of fraud and corruption.
- The majority of departments have implemented a medium for reporting wrongdoing.

The following gaps were identified with regard to Fraud Prevention:

- Inadequate employment of proactive measures, such as Fraud Risk Assessments and Data mining tools, in order to prevent fraud/corruption.
- Lack of ethics training provided to employees.

Table: 4.1. Extent of implementation of the King II recommendations and gaps identified.

#	Corporate Governance areas	Satisfactory	Unsatisfactory
1.	Risk Management		
1.1	Responsibility for risk management		✓
1.2	Risk Management Policy		✓
1.3	Risk Appetite defined?		✓
1.4	Risk Management Committee	✓	
1.5	Risk Management Committee Meetings	✓	
1.6	Frequency of Risk Assessment exercise		✓
2.	Internal Audit		
2.1	Internal Audit Activity	✓	
2.2	Internal Audit Reporting lines	✓	
2.3	Inputs for coverage plan		✓
3.	Audit Committees		
3.1	Audit Committee in place	✓	
3.2	Independence of Audit Committee members	✓	
3.3	Frequency of Audit Committee Meetings	✓	
4.	Fraud Prevention (Ethics)		
4.1	Fraud Response plan	✓	
4.2	Measures to mitigate fraud risk		✓
4.3	Reporting for wrong doing	✓	
4.4	Proactive fraud prevention tools		✓
4.5	Ethics Training		✓
4.6	Ethics as performance evaluation criteria		✓

With regard to the attainment of the last study objective as highlighted above, the following conclusions are made:

- The majority of respondents believed that inadequate corporate governance principles have been implemented by their departments, and this result in failure to effectively curb the prevalence of fraud and corruption.
- There is also a perception by the respondents that there is a lack of accountability, openness and transparency in their departments which contributes to the high levels of fraud and corruption in those departments.
- However as shown by the results of the study on the four principles of research, i.e. Risk Management, Internal Audit, Audit Committees, and Fraud Prevention, there has been generally a positive step towards full implementation of the King II Report, which, according to some respondents (although minority), have contributed positively towards fighting fraud and corruption in their departments.

4.3. RECOMMENDATIONS

In the light of the gaps identified by this study, the following are the recommendations:

4.3.1. Risk Management

- The responsibility for a total risk management process in the department should rest with the Accounting Officer, i.e. the Director General. Management of the department should be held responsible for designing, implementing, and monitoring this process as well as embedding risk management into the day-to-day activities of the department. Management in this case should be answerable to the Accounting Officer.
- Departments should develop and implement a risk management policy which communicates its strategy on risk management. All employees should be trained on the risk management policies to ensure that risk management is incorporated into their daily activities.
- The risk management policy should clearly define the department's risk appetite which management should consider in setting organizational objectives, evaluation of strategic alternatives, and development of measures to manage risks. Risk appetite is the amount of risk at broad level that the department is willing to take in pursuit of its objectives (COSO).
- The departments should establish Risk Management Committees aimed at advising on the coordination and prioritization of risk

management issues throughout the department. The committee's key responsibilities will be to provide independent and objective oversight and to review the information presented by management on accountability and associated risks.

- A risk assessment process should be conducted formally at least annually by the national departments, however, a continuous approach to identifying emerging risks should be adopted.

4.3.2. Internal Audit

- The Internal Audit function should be structured in such a way that it will achieve organizational independence and allow full and unrestricted access to the top management and the audit committee of the department. The Institute of Internal Auditors *Standards for Professional Practice of Internal Auditing* requires that the Head of Internal Audit should report to a level within the organization that allows the Internal Audit activity to fulfil its responsibilities. To achieve the necessary independence, the Head of Internal Audit should report functionally to the audit committee. However, for administrative purposes the Head of Internal Audit should report directly to the Accounting Officer of the department, i.e. the Director General.
- The Internal Audit coverage plans should be based on the risk assessment as well as on the issues highlighted by the audit committee and senior management.

4.3.3. Audit Committees

- Audit Committees in the national departments should be enhanced to review and monitor the functioning of the internal control systems as well as risk management processes.

4.3.4. Fraud Prevention (Ethics)

- Departments should provide adequate communication and training to all employees on the internal control policies and procedures, organizational code of conduct, standards and values as well as compliance procedures.
- Ethics training should form a greater part of the ethics and awareness programme by the departments. This will inculcate the culture of ethical decision making and practices by all the employees.
- Ethical behaviour should be included in the performance management plans and agreements of employees as an integral part of ethics management programme of the department.

4.4. CLOSING REMARKS

It appears that the subject of corporate governance still requires more emphasis in the national government departments. The two areas of corporate governance, that is, internal audit and audit committees seem to be better implemented compared to the other two researched areas, namely; risk management and ethics (fraud prevention). This could be attributed to the fact that legislation in the public sector, namely Public Finance Management Act 29 of 1999 and the Treasury regulations, 2001

have clearly articulated the requirements in terms of internal audit and audit committees. Therefore it is clear that these could be seen as issues of compliance rather than best practices.

However, in the overall, the national departments appear to have made recognizable movements in attempting to put into operation good governance principles in place. The results have indicated that they have achieved full compliance in terms of implementing internal audits and audit committees. The fact that majority of the respondents in these departments were not impressed by the steps taken by their departments in implementing good governance principles, could be an indication that these were implemented just to comply with the legislative requirements. Therefore, national government departments should not only strive to close the gaps identified in this study but also ensure that they derive benefits from implementing good governance principles.

The following are suggested areas of further research:

- The extent of implementation of good corporate governance (King II Report) principles focusing at provincial and or local government;
- The contribution of good governance (King II Report) towards the fight against fraud and corruption in local or provincial government.

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Letter of introduction to the Head of Departments, Directors-General sent via email to all 37 national departments

[Name of the head of Department]

Head of Department

Department of

Private Bag X.....

Pretoria

0001

Email:

Dear Sir/Madam

LETTER OF INTRODUCTION

My name is William Makgabo, employed by the Gauteng Department of Education as a Senior Manager for Risk Management.

I'm currently studying towards a Master of Business Administration (MBA) degree at the North West University (Formerly PU for CHE) and have to complete a dissertation to fulfill the requirements of the degree. Confirmation of registration is attached. In order to compile a dissertation report I need to conduct a research into the level of implementation of corporate governance systems in the public sector.

Your department has been identified as one of the departments that could be of assistance with the research. The research will be in the form of a web based structured questionnaire. The targeted respondents are Directors-General of national government departments in this research.

I therefore request your permission to include your department in this research for the purpose of my studies.

Should you require further information or should you have any enquiry regarding this, please do not hesitate to contact either myself or the study supervisor at the numbers below.

Thanking you in anticipation,

Yours truly,

William Makgabo

Study Leader: Prof JPS Pretorius
Potchefstroom Business School

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Covering letter (email) to the respondents in all 37 national departments

Dear Respondent

Thank you for taking time to participate in this study. Please note that your participation is completely voluntary and your response to the questionnaire will be treated with absolute confidentiality.

This study is being conducted by Mr. William Makgabo as part of Master of Business Administration (MBA) project under the supervision of Professor Kobus Pretorius of the North West University, Potchefstroom. We are conducting a research study on Corporate Governance in the South African public sector. The main objective of the study is to establish the extent to which the recommendations of the King II Report on Corporate Governance have been implemented by various public sector institutions and to establish the work that still needs to be done.

Please read the following instructions carefully before opening the questionnaire.

Instructions for completing the questionnaire:

- Please tick the appropriate box to select your answer.
- The questionnaire consists of 40 questions and will take approximately 15 minutes to complete.
- You may select more than one answer on questions 8; 12; 18; 30; 31; 34; 35; 36; 37 and 39.
- You must press the **Submit Survey** button at the bottom of the questionnaire after filling it in or it will not be saved!
- Please note that a limit is set to one for each respondent, hence, after submitting the questionnaire you won't be able to open it again, so if you want to repeatedly look at it do not submit immediately.

- The questionnaire should be completed and submitted on or before **20 October 2007.**

Should you have any questions about the questionnaire or this study, please contact the researcher on 083 251 7251, (011) 355 0269 or at the following email address: william.makgabo@gauteng.gov.za

Thank you once more for participating in this study. The results of this study will provide the venues and serve as a basis for benchmarks of good governance practice against which the public sector institutions can improve for better service delivery.

Double Click On The Link To Open The Questionnaire.

<http://vovici.com/wsb.dll/s/14452g2d556>

**Researcher,
Makgabo William**

The questionnaire in HTML format

Corporate Governance Survey

Section A: Biographical details

1. What is the name of your department?

- ☐ Agriculture
- ☐ Arts and Culture
- ☐ Communications
- ☐ Correctional Services
- ☐ Defence
- ☐ Education
- ☐ Environmental Affairs and Tourism
- ☐ Foreign Affairs
- ☐ Government Communications (GCIS)
- ☐ Health
- ☐ Home Affairs
- ☐ Housing
- ☐ Independent Complaints Directorate
- ☐ Justice and Constitutional Development
- ☐ Labour
- ☐ Land Affairs
- ☐ Minerals and Energy
- ☐ National Intelligent Agency
- ☐ National Treasury
- ☐ Provincial and Local Government
- ☐ Public Enterprises
- ☐ Public Service and Administration
- ☐ Public Service Commission
- ☐ Public Works
- ☐ Science and Technology
- ☐ Safety and Security
- ☐ SA Police Service
- ☐ SA Revenue Service
- ☐ SA Secret Service
- ☐ Social Development
- ☐ Sports and Recreation
- ☐ Statistics South Africa
- ☐ The Presidency
- ☐ Trade and Industry
- ☐ Transport

- ☐ Water Affairs and Forestry

2. What position do you hold in the department?

- ☐ Director General
☐ Deputy Director General
☐ Chief Financial Officer
☐ Head of Internal Audit
☐ Chief Risk Officer
☐ Internal Auditor
☐ Internal Control Officer
☐ Compliance Officer
☐ Other (Specify)
-

3. How long have you been employed in this department?

- ☐ 0 - 3 Years
☐ 4 - 6 Years
☐ 7 - 10 Years
☐ More than 10 years

Section B: Risk Management

4. Who in your department has the overall responsibility for risk management processes?

- ☐ Accounting Officer
☐ Chief Financial Officer
☐ Chief Operations Officer
☐ Risk Management Committee
☐ Audit Committee
☐ Other

(Specify) _____

5. Does your department have an approved risk management policy?

- ☐ Yes
- ☐ No
- ☐ Do not know

6. Has your department's risk appetite level been clearly specified in the risk management policy?

- ☐ Yes
- ☐ No
- ☐ Do not know

7. Do you believe that your department's current risk management practices support good corporate governance?

- ☐ Strongly disagree
- ☐ Disagree
- ☐ Agree
- ☐ Strongly Agree
- ☐ Do not know

8. The department uses the following risk frameworks as a basis for the risk management process. (Tick all boxes that apply)

- ☐ Standard AS/NZ 4360
 - ☐ COSO Integrated Control Framework
 - ☐ COSO Enterprise Risk Management Integrated Framework
 - ☐ Public Sector Risk Management Framework
 - ☐ Other (Specify)
-

9. Has the department established a Risk Management Committee?

- ☐ Yes
- ☐ No
- ☐ Do not know

10. Has the department established a Risk Management Unit?

- ☐ Yes
-

- ☐ No
- ☐ Do not know

11. How many times in a year does the Risk Management Committee hold its meeting?

- ☐ Once
- ☐ Bi-annually
- ☐ Three times
- ☐ Quarterly
- ☐ Other

(Specify) _____

12. Who are the members of the Risk Management Committee? (Tick all boxes that apply)

- ☐ Accounting Officer
- ☐ Chief Financial Officer
- ☐ Head of Internal Audit
- ☐ Chief Risk Officer
- ☐ Audit Committee Chairperson
- ☐ Other (Specify)

13. Who chairs the Risk Management Committee?

- ☐ Accounting Officer
- ☐ Chief Financial Officer
- ☐ Head of Internal Audit
- ☐ Chief Risk Officer
- ☐ Audit Committee Chairperson
- ☐ Other

(Specify) _____

14. How often has the department previously performed a strategic risk assessment exercise?

- ☐ Once every year
- ☐ Bi-annually
- ☐ Once every 3 years
- ☐ Once every 5 years

☐ Other
(Specify) _____

15. Risk Management is practiced by all employees of the department in their day to day activities.

- ☐ Strongly disagree
- ☐ Disagree
- ☐ Agree
- ☐ Strongly Agree
- ☐ Do not know

Section C: Internal Audit

16. Does the department have an Internal Audit function?

- ☐ Yes
- ☐ No
- ☐ Do not know

17. If yes, to whom does the head of internal of Internal Audit report?

- ☐ Accounting Officer
- ☐ Chief Financial Officer
- ☐ Chief Operations Officer
- ☐ Risk Management Committee
- ☐ Audit Committee
- ☐ Not applicable
- ☐ Other

(Specify) _____

18. The Internal Audit annual coverage plan is based on the following. (Tick all boxes that apply)

- ☐ Risk Management plan
- ☐ Internal Audit risk assessment or judgement
- ☐ Management requests
- ☐ Management inputs
- ☐ Audit Committee inputs
- ☐ Other

(Specify) _____

Section D: Audit Committee

19. Has the department appointed an audit committee?

- ☐ Yes
- ☐ No
- ☐ Do not know

20. The audit committee operates under a written charter (Terms of Reference)

- ☐ Yes
- ☐ No
- ☐ Do not know

21. The department's audit committee is comprised of members who are independent of management.

- ☐ Yes
- ☐ No
- ☐ Do not know

22. The department's audit committee is comprised of members who are financially literate.

- ☐ Yes
- ☐ No
- ☐ Do not know

23. The chairperson of the audit committee is.

- ☐ Independent member
- ☐ Accounting Officer
- ☐ Chief Financial Officer
- ☐ Head of Internal Audit
- ☐ Other

(Specify) _____

24. How often does the audit committee meet in a year?

- ☐ Monthly
- ☐ Half yearly

- ☐ Quarterly
☐ Other
(Specify) _____

25. The audit committee reviews the report of the Auditor General.

- ☐ Yes
☐ No
☐ Do not know

26. The audit committee recommends to the Head of Department (HOD) any corrective actions to be taken regarding issues raised in the Auditor General's report.

- ☐ Yes
☐ No
☐ Do not know

Section E: Fraud/Corruption Prevention

27. Is fraud/corruption perceived as a problem in the department?

- ☐ Yes
☐ No
☐ Do not know

28. Number of fraud/corruption cases experienced in the past 5 years?

- ☐ None
☐ 1 -10
☐ 11-20
☐ 21-30
☐ More than 30
☐ Do not know

29. What is the current level of corruption in your department compared to 5 years ago?

- ☐ Do not know
☐ Lower
☐ The same
☐ Higher

30. If lower, what do you attribute this change in the level of corruption to?
(Tick all boxes that apply)

- ☐ Commitment to accountability, openness and transparency
- ☐ Good Internal Controls
- ☐ Better socio-economic conditions
- ☐ Improved Social values
- ☐ Greater public awareness
- ☐ Not applicable
- ☐ Other

(Specify) _____
—

31. If higher, what do you attribute this change in the level of corruption to?
(Tick all boxes that apply)

- ☐ Lack of accountability, openness and transparency
- ☐ Weak Internal Controls
- ☐ Worsening economic conditions
- ☐ Weak Social values
- ☐ Uninterested public awareness
- ☐ Not applicable
- ☐ Other

(Specify) _____

32. Implementation of corporate governance systems in your department reduced the prevalence of fraud/corruption in your department.

- ☐ Strongly agree
- ☐ Agree
- ☐ Neither agree nor disagree
- ☐ Disagree
- ☐ Strongly disagree
- ☐ Do not know

33. Does your department have a fraud response plan?

- ☐ Yes
- ☐ No
- ☐ Do not know

34. Measures adopted by the department to mitigate risk of fraud/corruption.
(Tick all boxes that apply)

- ☐ Code of conduct
- ☐ Ethics policy
- ☐ None
- ☐ Do not know
- ☐ Other

(Specify) _____

35. How are these measures communicated to the employees? (Tick all boxes that apply)

- ☐ Intranet/Posters
- ☐ Workshops/Training
- ☐ Emails/Handouts
- ☐ Informal discussions
- ☐ Other

(Specify) _____

36. What is the medium available to employees in the department to report wrong doing? (Tick all boxes that apply)

- ☐ Direct approach
- ☐ Email
- ☐ Anonymous call/letter
- ☐ Hotline
- ☐ Grapevine
- ☐ Whistle-blowing
- ☐ Other

(Specify) _____

37. What proactive tools or steps have been employed to detect or prevent fraud? (Tick all boxes that apply)

- ☐ Pre-employment background checks
- ☐ Fraud risk assessments
- ☐ Data mining tools
- ☐ Internal Audits
- ☐ Compliance reviews

☐ Other

(Specify) _____

38. Does the department provide ethics training?

☐ Yes

☐ No

☐ Do not know

39. What type of ethics training does your department provide? (Tick all boxes that apply)

☐ Embedding ethics into daily activities.

☐ Ethical decision making

☐ Application of the code of conduct/ethics

☐ None

☐ Other

(Specify) _____

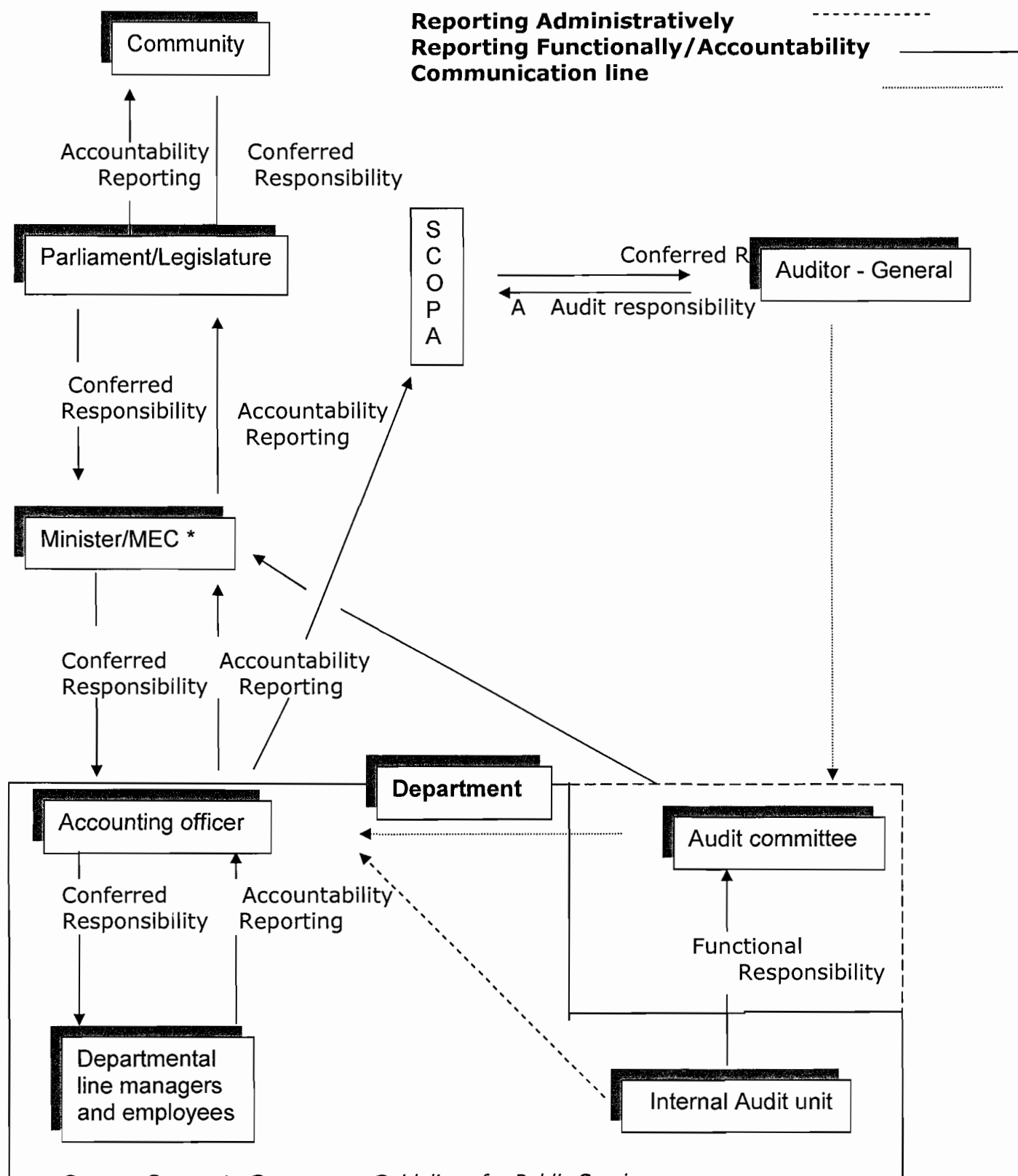
40. Does your department's performance evaluation criteria include items related to ethical conduct?

☐ Yes

☐ No

☐ Do not know

ACCOUNTABILITY PROCESS IN THE PUBLIC SECTOR



Source: Corporate Governance Guidelines for Public Service

SAMPLE INTERNAL AUDIT CHARTER

PURPOSE OF THE CHARTER

The purpose of this charter is to define the mission, independence and objectivity, scope and responsibility, authority, accountability and standards of performance of the Gauteng Department of Education Internal Audit Department.

THE DEFINITION OF INTERNAL AUDITING

The official definition of Internal Auditing according to the Standards for Professional Practice of Internal Auditing is:

Internal Auditing is 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.

INDEPENDENCE AND OBJECTIVITY

In order to ensure independence, the Internal Audit Department shall be functionally accountable to the Audit Committee of the department. However, the Head of the Internal Audit Department shall report on all administrative matters of the Head of the Department. This reporting relationship ensures departmental independence, promotes comprehensive audit coverage and assures adequate consideration of audit recommendations.

To maintain objectivity, the Internal Auditors shall not be involved in the day-to-day execution of control procedures for any unit/department of the department.

The appointment and/or removal of the Head of the Internal Audit Department shall be effected in accordance with the relevant departmental Human Resources Policies and Procedures and with the approval of the Audit Committee.

REPORTING TO THE AUDIT COMMITTEE

The Audit Committee was established with the delegated responsibility of assisting the department in the discharge of its duty of ensuring good corporate governance practices, responsible and compliant financial reporting as well as other oversight responsibilities. The Audit Committee operates in terms of the departmental mandate as contained in the Audit Committee Charter.

To reinforce the independence and nature of the required reporting relationship, the Head of the Internal Audit Department shall meet privately with the Audit Committee when necessary.

The Head of the Internal Audit Department shall, at all times, have open, direct and free access to the Chairperson of the Audit Committee and its members as well as to the Head of Department where appropriate.

In terms of the Institute of Internal Auditors **Performance Standard 2020**, the Head of the Internal Audit Department shall report on the Department's activities and resource requirements and in terms of **Performance Standard**

2060, the activity reports shall include staffing plans.

REPORTING FUNCTIONALLY TO THE AUDIT COMMITTEE INCLUDES:

- Obtaining approval of the Internal Audit Department Charter.
- Obtaining approval of the audit coverage plan compiled on the basis of the outcomes of an enterprise wide risk assessment.
- Presentation of activity reports regarding the results of Internal Audit activities and other matters concerning internal control, risk management and corporate governance.
- Presentation and discussion of confidential investigation reports.
- Communicating the existence, nature and extent of scope or budget limitations that may impede the ability of the department Internal Audit Department to perform its duties effectively.

REPORTING ADMINISTRATIVELY TO THE HEAD OF DEPARTMENT INCLUDES:

- Review and provide input on the proposed audit coverage plan before its submission to the Audit Committee.
- Review all fraud related audit reports and provide guidance on corrective action before submission to the Audit Committee.
- Approval of leave and other administrative matters for the Head of the Internal Audit Department.
- Attending to all operational issues reported together with other members of management.
- Attending to human resources and financial budgets of the department's Internal Audit Department in accordance with the recommendations of the Audit Committee.

- Attending to all related administrative issues of the department's Internal Audit Department.

ROLES AND RESPONSIBILITIES

Management's Responsibility

To facilitate effective performance of Internal Audit engagements, management shall:

- Ensure proper internal control mechanisms exist and are enforced.
- Cooperate and participate in the development of audit scope for every audit engagement.
- Provide all relevant documents and information in whichever form required by the Internal Auditors for performance of the audit engagement.
- Provide the necessary co-operation and assistance as mutually agreed upon during the audit engagement.
- Respond timely to audit findings and recommendations.
- Ensure timely resolution of matters reported on and implementation of audit recommendations.

Internal Audit's Responsibility

The Head of the Internal Audit Department and the Internal Auditors are responsible for:

- Developing a flexible three year rolling Internal Audit coverage plan using an appropriate risk-based methodology.
- Submission of the rolling audit coverage plan to Management for input and the Audit Committee for final review and approval. Periodic updates

of the rolling coverage plan will follow the same process to ensure proper review and approval.

- Compilation of annual plans from the approved three year rolling audit coverage plan.
- Implementing the annual audit plans, making reasonable provision for any special tasks or projects requested by Management and the Audit Committee.
- Maintaining a professional and adequately resourced Internal Audit department which is able and capable to deliver on its mandate.
- Evaluating and assessing significant merging / consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and / or expansion.
- Issuing periodic reports to the Audit Committee and Management with a summary of results of audit activities.
- Informing the Audit Committee of emerging trends and successful practices in Internal Auditing.
- Investigation of significant fraudulent activities affecting the department and notifying Management and the Audit Committee of the results.
- Coordinating the work of internal and external auditors, as appropriate, for purposes of providing optimal audit coverage to the department and preventing any duplication of efforts.

SCOPE OF INTERNAL AUDIT WORK

The scope of work of the Internal Audit Department involves inter alia, the performance of evaluations and appraisals of the department's systems of risk management, control, and governance processes that are designed by management, to ensure that:

- Risks are appropriately identified and managed.
- Interaction between the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with standards, policies, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately safeguarded.
- Programs, plans, and objectives are achieved effectively, efficiently and economically.
- Quality and continuous improvement are embedded in the department's control processes.
- Significant legislative or regulatory issues impacting upon the department are recognised and addressed appropriately.

Opportunities for improving management control, profitability, and department's image may be identified during audits. The identified opportunities will be communicated to the appropriate level of management.

The Internal Audit Department shall not have a limitation in determining the scope of Internal Auditing, performing work, and communicating results. The Internal Audit Department shall not develop or install accounting procedures, controls, prepare records, or engage in activities that its personnel would normally review and appraise and that could reasonably be construed to compromise its independence.

Objectivity need not be adversely affected by the determination and recommendation of standards and techniques of control to be applied in developing systems and procedures under review or by providing technical assistance to management in systematic analyses of operations or activities.

AUTHORITY OF INTERNAL AUDIT

The Head of the Internal Audit Department and the auditors are authorised in terms of this Charter to:

67. Have unrestricted access to all functions, records, property, and personnel, including intellectual and electronic properties required in the performance of audit assignments.
68. Have full and free access to the Audit Committee.
69. Allocate resources, set frequencies, select activities to audit, determine scopes of work, and apply the techniques required to accomplish the audit objectives. Obtain the necessary assistance of all personnel in units of the department where they perform audits, as well as other specialised services from within or outside the department. Providing any form of false representation or misleading statements to the Internal Auditors is considered unethical behaviour and shall not be tolerated by Management and Senior executive.

The Head of the Internal Audit Department and the auditors are not authorised to:

- Perform any operational duties for the department or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any departmental employee not employed by the Internal Audit Department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the Internal Auditors.

The services performed by Internal Auditors are staff and advisory functions only, and do not relieve line department personnel of operating responsibilities assigned to them.

ACCOUNTABILITY OF INTERNAL AUDIT

The Head of the Internal Audit Department shall, in the discharge of his / her duties, be accountable to Management and the Audit Committee to:

- Annually provide an assessment on the adequacy and effectiveness of the department's processes of controlling its activities and managing the risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes of controlling the activities of the department and its affiliates, including opportunities for improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the adequacy of the department's resources.
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, and external audit).

MANAGEMENT OF THE INTERNAL AUDIT FUNCTION

The Head of the Internal Audit Department is responsible for its effective management so that:

- Internal Audit as a consulting and assurance providing function assists Management with its task of achieving the organisation's strategic goals and objectives.
- Resources of the Internal Audit Department are efficiently and effectively employed.

- The following are complied with:
 - International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors Inc.;
 - The Code of Ethics and the Statement of Responsibilities of the Institute of Internal Auditors.
 - The Information Systems Audit and Control Association's Standards for Performance of Information Systems Audits;
 - The Code of Professional Standards for Certified Fraud Examiners.

The Head of the Internal Audit Department will establish plans to execute the responsibilities of the department. The planning process involves performing and/or establishing:

- Goals, Objectives, Mission and Vision Statements
- Strategic Risk Based Audit Coverage Plans
- Annual Audit Work Plans and Schedules
- Staffing Plans and Financial Budgets
- Activity Reports

The Head of the Internal Audit Department will in executing his/her assigned duties for managing the Internal Audit Department:

- Provide written policies and procedures to guide the Internal Audit staff
- Establish a program for selecting and developing human resources of the department
- Co-ordinate internal and external audit efforts to ensure proper audit coverage and minimize duplication of efforts, including:
 - Periodic meetings with the external auditor to discuss matters of mutual interest
 - Access to each other's audit programs and working papers
 - Exchange audit reports and management letters

- Apply a common understanding of audit techniques, methods and terminology.
- Establish and maintain a quality assurance program to evaluate the operations of the department.
- Provide staff assistance to the Audit Committee of the department.

APPROVAL OF THIS CHARTER

Signed and dated:

The Head of Department

Chairperson of Audit Committee

SAMPLE AUDIT COMMITTEE CHARTER

INTRODUCTION

The King Report on Corporate Governance requires management to publicly confirm that they have reviewed the effectiveness of the Internal Control of their organisation. The implementation of control and information systems is essential to the effective discharge of management's responsibilities.

The department continuously reviews current trends and best practice in relation to corporate governance. As part of the department's plans to fulfil its obligations to demonstrate greater accountability, transparency and in ensuring higher quality of service and as is likely to be required by statute, the department has decided to address internal control through the establishment of a strong and independent Audit Committee.

This Charter sets out the specific responsibilities delegated by the department to the Audit Committee and details the manner in which the Audit Committee will operate and is subject to an annual review.

OBJECTIVES, AUTHORITY AND POWERS OF THE AUDIT COMMITTEE

The broad objectives of the Audit Committee are as follows:

- (a) The Audit Committee will be advisory in nature and will not have any executive powers.
- (b) The Committee will consider matters relating to the discharge by management of their duties relating to risk management, the safeguarding of assets, financial and operational controls, the operation

of adequate systems and the reliability and credibility of the financial reporting.

- (c) The Committee will not perform any management functions or assume any management responsibilities, as this could prejudice the objectivity of the Committee. The Committee will mainly make recommendations to head of department or any delegated representative resulting from the activities carried out by the Committee according to its terms of reference.

The Audit Committee shall:

- (a) After consultation with the head of department, have the authority to seek any information it requires from any officer or employee of the department and such officers or employees shall be compelled to respond to such enquiries (provided that any such requests shall be made through business unit managers).
- (b) Have unrestricted access to information relating to all personnel, books of account, minutes of all management meetings, records, assets and liabilities of the department and to any other sources of relevant information that may be required from the department for the purpose of its duties and responsibilities.
- (c) Have explicit authority to investigate any matters within its terms of reference.
- (d) Be authorised to take such independent professional advice and action, as it considers necessary.

- (e) Be authorised to request Internal Audit services to investigate matters that in its opinion require attention.

DUTIES AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

- (a) The Audit Committee shall consider any matters relating to the financial affairs of the department and to the internal and external audit that is determined to be desirable. In addition, the Committee shall examine any other matters referred to it by management, provided that such requests are legitimate and within the scope of the Committee's duties.
- (b) Other duties of the Committee shall include:
 - i) Review of the department's risk areas to be covered in the scope of internal and external audits.
 - ii) Review internal, external and other reports assessing the compliance with law, audit and accounting standards.
 - iii) Review internal and external audit reports and other reports evaluating the effectiveness of the department's system of internal control.
 - iv) Review and report on management's response to reported weaknesses in control, deficiencies in systems and recommendations for improvement.

- v) Assess the treatment of significant accounting, auditing or disclosure problems highlighted by the auditors and by financial management.
- vi) Consider differences of opinion between management and auditors.
- vii) Consider the quality, value and effectiveness of financial information produced.
- viii) Direct and supervise investigations into any matters within the scope of its duties and responsibilities including projects as requested by the management.
- ix) Appraise the performance of auditors.
- x) Monitor/evaluate the activities of the Audit Steering Committee pertaining to the co-ordination of the internal and external audit functions and to ensure maximisation of audit resources. The minutes of the abovementioned Steering committee to be submitted to the Audit committee at their quarterly meeting.
- xi) Prepare and submit an annual report to management dealing with the activities of the Audit Committee during the year as well as any recommendations and decisions made by it.
- xii) Communicate to stakeholders regarding its activities
- xiii) Submit recommendations to management, from time to time in regard to or flowing from the above duties.
- xiv) Any other duty recommended by any legislation.

xv) Consider social and environmental issues.

Responsibilities relating to Internal Audit Division

The Audit Committee should ensure that Internal Audit Division performs its responsibilities effectively and efficiently by –

- (a) review and approval of the Internal Audit Charter;
- (b) review of the organisational structure, competence and qualifications of the Internal Audit Function;
- (c) review and approval of the annual plan, scope and approach of the Internal Audit Division and in so doing, ensure that the plans address the high risks areas and that adequate resources are available;
- (d) consideration and evaluation of the adequacy of performance of the Internal Audit function, including the degree of co-operation with external auditors.
- (e) review of audit results, action plans and/or action taken by management;
- (f) review of the results of quality assurance reviews;
- (g) providing support to Internal Audit;

- (h) ensuring that Internal Audit Division work is co-ordinated with External Audit to ensure no duplication of work;
- (i) ensuring that no restrictions or limitations are placed on Internal Audit Services;
- (j) ensuring that quarterly reports are received from the Manager: Internal Audit & Risk Management.

Responsibilities relating to the External Audit Function performed by the Auditor-General

The Audit Committee should also –

- (a) ensure that there are no restrictions or limitations placed on the External auditors;
- (b) review the audit plan of the external auditors and ensure that critical risk areas are addressed;
- (c) review the external audit fees charged for reasonability;
- (d) review the external audit results, quality and content of financial information presented prior to the issuing of the annual financial statements and submit a report to management in this regard for consideration at the meeting where the financial statements are to be approved;
- (e) review the action plans of management with regard to (c) above;
- (f) consider significant disagreements between External Auditors and management;
- (g) consider material unsolved accounting and auditing problems;
- (h) ensure direct access by the External Auditors to the Audit Committee, and the Chairperson of the Audit Committee.

STRUCTURE AND COMPOSITION OF THE AUDIT COMMITTEE

Membership and size of Committee

The Committee shall consist of the following persons, of which the quorum will be three of the fixed members of the Committee, including at least two independent members, as enumerated in points (i) to (ii) hereunder.

i) Independent members

Three independent individuals outside the department, preferably with a financial background, to be appointed by the head of department, of which two will be elected by the Audit Committee as the Chairperson and the Deputy Chairperson.

ii) departmental members

Two departmental members, preferably with financial / auditing background could be nominated to the committee.

iii) The following non-members will be in attendance at all meetings:

- (a) The Head of the department.
- (b) A representative from the Office of the Auditor-General
- (c) The Chief Audit Executive.

The Audit Committee may excuse any of the non-members from the meeting.

- iv) Other members of management will be invited to attend Audit Committee meetings when there is a functional responsibility to be discussed.
- v) The Audit Committee may also invite such other persons, as it deems necessary.
- vi) The Internal Audit department shall provide a secretariat function to the committee.
- vii) The external members shall serve the Audit Committee for a **period of 3 years** renewable to maximum of 5 years reckoned from the date on which the external member actually assumes duty on the terms and conditions contained in the contract.

REMUNERATION

Councillors serving the Audit Committee shall not receive additional remuneration.

The Chairperson shall be remunerated at a rate equivalent to the hourly rate paid by the Auditor General to the Partners of an external audit firm which rate shall be reviewed annually at the discretion of the department. The other members shall be paid at a rate of 15% less than the normal committee member. The remuneration payable to the members will be paid on a quarterly basis.

CRITERIA FOR THE APPOINTMENT OF MEMBERS TO THE AUDIT COMMITTEE

The Audit Committee's effectiveness in performing its objectives depends on its members' knowledge and competence in business matters, financial reporting, internal controls and auditing which must be able to add-value to the department.

6.1 The following guide will be used for selecting members:

- (a) They should have the interests of the department at heart.
- (b) The majority of members should be financially literate which includes the ability to read and understand a balance sheet, income statement and cash flow statements.
- (c) At least two independent members should have an accounting or related financial management expertise. This could have arisen through past employment in finance and accounting, a professional qualification in accounting, or any other comparable experience including being a senior officer with financial oversight responsibilities. At least one independent member should be competent in performance management.
- (d) They should have the insight and ability to ask probing questions about the department's financial and operating risks and offer recommendations when required.
- (e) The department should choose someone with strong leadership qualities

and the ability to promote effective working relationships (among committee members and with others such as management and internal and external auditors).

- (f) They should possess have a track-free record and display qualities of honesty and integrity and not in any way bring the name of the department into disrepute.
- (g) They should have some community service background.
- (h) They should display common sense and objectivity and have an understanding of management principles in order to recognise material deviations from sound management, i.e. they should be able to apply broad knowledge to situations likely to be encountered and arrive at reasonable solutions.

A notice will be published in the local press inviting applications/ nominations for membership. The department will adjudicate the applications/ nominations, arrange interviews and select the most suitable candidates. This procedure will also apply where vacancies arise on the Audit Committee.

FUNCTIONING OF THE AUDIT COMMITTEE

The Audit Committee will not be a formal committee, but will be an independent advisory body to management on issues such as the identification of waste and inefficiencies in the department's activities and operations and will assist in ensuring accountable and transparent local government. The Audit Committee will therefore serve as the municipal "watchdog". The Committee will submit the minutes of the Audit Committee to the head of

department. The Audit Committee must ultimately be responsible to the head of department.

Meetings

A minimum of four meetings shall be held during a financial year (one meeting per quarter).

Special meetings of the Audit Committee may be convened with the Chairperson's approval. Any member of the Audit Committee, the Internal or External Auditors may request a special meeting if one is considered necessary.

Quorum

The quorum for meetings will be three of the five fixed members of the Committee including at least two independent members.

Notice of Meetings

Notice shall be given in writing to all members of the Audit Committee and other interested parties, of each meeting to be held, at least 14 days prior to the date on which such meeting is to be held.

Agenda for meetings

The Chairperson must prepare the agenda of the meeting, which shall be distributed at least seven (7) days prior to the meeting date. The agenda will consist of items emanating from reports issued by the Internal Audit Division as well as items identified by the Committee. Any person attending the

meeting may add items to the agenda three (3) days before the agenda is finalised. Such items should be provided to the secretary of the Audit Committee.

Minutes of meetings

The secretary shall keep minutes of all meetings and shall include the minutes with the agenda of the next Audit Committee meeting. The Secretary shall circulate the minutes of the Audit Committee to all members of the Audit Committee.

Reporting procedure

The Chairperson of the Audit Committee must report to the Executive Mayor as soon as possible after the date of the Audit Committee's quarterly meeting.

In addition, the Chairperson must report annually in the annual report of the department summarising the activities, recommendations and decisions of the Audit Committee during the previous financial year.

Signed and Dated:

Chairperson of Audit Committee

Adapted from Source: De Loach, 2000

SAMPLE RISK MANAGEMENT POLICY

It is the policy of this department to adopt a common approach to the management of risk. This approach involves a clearly stipulated strategy defining the risks that the department is in business to take and those that it is not.

Our approach is as follows: Risk management is the structured process of identification, assessment, and continuous managing of the combined risks that affect our values.

The foundation of this policy is the obligation and desire to protect:

- The environment in which we operate;
- Our employees;
- Our position as the provider of highest quality services

Our policy in respect of these foundation attributes is that physical, financial and human resources will be applied to ensure that our standards of services achieve and exceed expectations, no other priority will be more important.

It is also our policy to achieve the economic expectations of our stakeholders; the organization must pursue opportunities involving a certain degree of risks. Our policy is to give full and due consideration to the balance of risk and reward, as far as practicable, to optimize the rewards gained from our business activities.

The application of this policy will be the responsibility of the management through the Head of the department. The head of the department and the

executive management team are responsible for the implementation of this policy through a risk management programme. Reporting of performance against policy and strategic targets will be conducted routinely depending on the nature of the risks.

The organization is committed to the philosophy of effective business risk management as a core managerial capability.

Signed and Dated:

Chief Executive Officer

Adapted from Source: De Loach, 2000

SAMPLE RISK MANAGEMENT COMMITTEE CHARTER

The management should make use of generally recognised risk management frameworks in order to maintain a sound system of risk management. Recognised risk management initiatives include the following three scopes of work.

- Safeguard the department's assets and equipment
- Support business objectives and sustainability under normal as well adverse operating conditions
- Behave responsibly towards all stakeholders having a legitimate interest in the organization.

The quality, integrity and reliability of the organization's risk management are delegated to the risk management committee.

Mission Statement

The committee's key responsibilities will be to provide independent and objective oversight and to review the information presented by management on corporate accountability and associated risks.

Authority

The committee will:

- Have access to all information it needs to fulfill its responsibilities.
- Investigate matters within its mandate.

The committee in carrying out its tasks under these charter, may obtain such outside or other independent professional advice as it deems necessary, in order to carry out its duties. The committee will have access to professional advice both inside and outside the department in order to perform its duties.

This charter may from time to time be amended as required.

Membership

The committee shall be chaired by the CEO with full participation of the senior executive management.

Interaction with Audit Committee

The audit committee is a separate forum governed by its own charter. The overall function of the audit committee is to ensure that management has created and maintained an effective control environment and demonstrates and stimulates the necessary respect for internal control structure amongst all parties.

Responsibilities

The committee will:

- Review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed.

- Set out the nature, role, responsibility and the authority of the risk management function within the department and outline the scope of risk management work.
- Monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risks including emerging and prospective impacts.
- Together with the department's legal advisor deal with any matters that could have a significant impact on the department's business.
- Ensure compliance with policies and procedures and with the overall risk profile of the department.
- Review the adequacy of the insurance coverage.
- Review risk identification and measurement methodologies
- Monitor procedures to deal with and review the disclosure of information to stakeholders.
- Have due regard to the principles of good governance and codes of practice.

Meetings

Meetings will be held as the committee deems fit, however, the committee should meet at least four times a year. The chairperson of the committee or any member of the committee may call a meeting any other time.

Risk

Risk in the widest sense includes market; credit; liquidity; operation and commercial risk that cover detailed combined risks such as the following:

- Interest rate risk
- Country risk
- Fraud risk
- Quality of service risk
- Technology risk
- Disaster recovery risk
- Operational risks
- Reputation risks
- Legal risk
- Compliance risks

Signed and Dated:

Chief Executive Officer

Adapted from Source: De Loach, 2000