CGI

The Institute of Internal Auditors South Africa

CORPORATE GOVERNANCE INDEX

2019

CONTENTS

FOREWORD

The Institute of Internal Auditors is proud to present the seventh edition of the Corporate Governance Index report. There is an unprecedented focus on risk and governance in South Africa currently and although we do not provide solutions, the Corporate Governance Index offers an overview of South African organisations governance ratings from the perspective of Chief Audit Executives (CAEs). The report is intended to have organisations start the conversation on the measurement of governance and see what the strengths and or weaknesses are in order to identify the gaps and start working on strategical solutions to bridge those gaps.

Chief Audit Executives have the advantage of having a bird's eye view of governance and risk practices in organisations. It is for that reason alone that we single out the CAE's to complete the CGI survey. There are increasing expectations by the public and organisational leaders for internal audit to provide independent assurance on governance matters including leadership and oversight activities.

Since the inception of the CGI report back in 2013, the publication has evolved into an information packed, useful resource tool. Key to the publication is that it is based on the King IV outcomes based, principles of governance. The King code of good governance, a world recognised governance guide, is a direct source of trust in society and instils an integrated thinking approach from the top down with leadership and oversight in organisations. Not just the financial results are key to King code but the interaction of all six capitals as defined in the Integrated Reporting Framework i.e. Financial, Social, Intellectual, Manufactured, Human and Natural capitals.

We are a far cry from the 3.2 obtained in the first CGI report in 2013 as the country index currently stands at 2.9. We have seen a significant drop in governance ratings and most importantly in the Ethics and Internal Audit dimensions. Increasingly we are seeing Chief Audit Executives indicating that they are not experiencing support from the most senior leadership and the relevant independence in order to provide objective assurance. We are also noting a cautiousness among the CAE's in their responses to the survey questions as 60% of the responses were answered as "Somewhat Agree" and not an outright "Strongly Agree" or "Strongly Disagree". The Anti-intimidation and Ethical practices Forum has an annual ethical practices survey report and in the most recent report it is noted that more than 50% of professionals, more importantly, Internal Auditors feared for their lives when reporting on unethical behaviour.

I want to thank all who have been a part of the participation and compilation of the 2019 survey and would like to single out our Chief Audit Executives and Dr Blanche Steyn from the University of Pretoria as without these key stakeholders we would not have the detailed report. I also urge leaders in organisations to indeed, take the CGI report seriously, to note key insights, ratings and comparisons over the past years and initiate a conscious effort to improve on the gaps identified.

Charles Nel
Acting Chief Executive Officer
The Institute of Internal Auditors South Africa
November 2019

THE INSTITUTE OF INTERNAL AUDITORS AT A GLANCE

The Institute of Internal Auditors South Africa (IIA SA) is a Section 21 non-profit organisation, affiliated to the global Institute of Internal Auditors Inc. (IIA Inc.) as a National Institute. Established in 1941 the IIA Inc. has more than 190 000 members worldwide. It serves as the internal audit profession's global voice, recognized authority, acknowledged leader, principal educator, and chief advocate. The Institute is the creator and custodian of the universal International Standards for the Professional Practice of Internal Auditing. The IIA SA sets the career path standards for internal auditors in South Africa, promotes the Profession in the country as well as promotes adherence to the IIA standards. IIA SA members are accountable to the Institute in terms of their conduct as prescribed in the IIA Code of Ethics.

The IIA SA's over 8000-strong membership represents the third largest affiliate in the world, second only to the USA and the UK. South Africa has representatives on all the major IIA Inc. international committees and in the process makes a significant contribution to the direction of the Profession globally. An internal auditor's function is to evaluate the controls that an organisation has in place to counter any risks that may prevent the organisation from achieving its objectives. To ensure this, the internal auditor tests controls, examines processes, and builds models of best practice. In recent years the expectations placed on internal auditors have increased dramatically. This is mainly due to the increased complexity and volatility in the market, which results in increased risks, that organisations are now continually faced with. In addition, King III has placed a greater emphasis on the importance of internal audit. The Institute's primary role is to support its members in meeting market expectations. Membership support revolves around professional advice, training and many other services.

Membership of the IIA SA speaks to the credibility of the internal auditor as the individual is required to work in accordance with the International Standards (IPPF) and is being held accountable against a the Code of Ethics. Are the internal auditors in your organisation members of the IIA SA? To verify, do a member search on our website www.iiasa.org.za

EXECUTIVE SUMMARY

The IIA SA's Corporate Governance Index 2019 reflects the views of two hundred and thirty five (235) Chief Audit Executives (CAE's). This is a drop in respondents from the 302 CAE's that responded in 2018 yet still more than when the report started out in 2013 with 217 respondents. What is key is that the chief audit executives are well positioned to provide a relatively impartial view of the state of corporate governance in South Africa, across industries and economic sectors.

This edition, the seventh annual publication, was developed through the technology and research assistance of the University Of Pretoria and in particular, Dr Blanche Steyn, the department of Auditing. The research methodology focused on a quantitative approach which emphasized objective measurements rating seven (7) Governance Dimensions viz; Ethics, Compliance, Leadership, Risk Management (Operational and External Risks), Performance and Assurance out of a rating scale of four (4). One (1) scoring very low and four (4) scoring very high.

The comparative key findings in the 2019 research study indicated the following:

1. The overall country Corporate Governance Index score has increased slightly this year from last year and moved back to the 2.9 score that reflected for the time period 2014-2016. The 3.2 rating in 2013 has still not been attainable to date.

2. There is a balanced respondent split for economic sectors in 2019 with 50% for public and 50% for private sector. The CGI report started out in 2013 with 64% of the private sector as the dominant respondents but that dropped to 46% in 2017. Whereas only 36% of the respondents were from the public sector in 2013 and grew to 54% in 2017.

3. Less than **30% Strongly Agreed** responses:
   a. Your organisation's human resource capital is optimally utilised. (2017-24%; 2018-16%; 2019-20%). While still below 30% it has improved slightly in the year.
   b. Your organisation continually considers multiple potential futures to ensure an adaptive strategy to mitigate against unexpected external risks that may arise beyond the boundaries within which the organisation operates. (2017-31%; 2018-24%; 2019-25%). Organisations need to improve on being better prepared for external disruptions.
   c. The leadership gives adequate attention to the opportunities, risks and disruptions associated with advances in technology and information. (2017-28%; 2018-22%; 2019-27%)
   d. The leadership is familiar with and utilises all the Integrated Reporting principles in the organisation's value creation process. (2017-28%; 2018-24%: 2019-24%).

4. More than **50% Strongly Agreed** responses:
   a. The oversight/governing body (such as the board, regulator, audit committee etc), sets a clear tone of zero tolerance toward unethical behaviour including fraud and corruption in your organisation. (2017-68%; 2018-65%; 2019-62%). This reflects a steady decline in leadership confidence.
   b. Your audit committee is effective in all the dimensions within the ambit of its responsibilities. (2017-54%; 2018-60%; 2019-60%)
   c. Within your organisation Internal Audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference. (2017-72%; 2018-72%; 2019-70%).

5. Respondents were more cautious in their answers in the 2019 report as we seen 60% respond to the "Somewhat Agree" rating.

6. The top 3 emerging risks identified by the Chief Audit Executives that Organisations should be aware of are:
   a. Override of authority
   b. Lack of job competence
   c. Lack of skills in audit committees

7. The top 3 emerging risks the Internal Audit profession should be aware of are:
   a. Loss of independence for Internal Auditors
   b. Interference with execution of assurance
   c. Lack of dealing with and learning about new trends in technology

8. The top emerging risks the IIA SA should be aware of to ensure the sustainability of the Internal Audit profession are :
   a. Safety and provision of protection of CAE's
   b. Advocacy on corruption in the profession

TABLE 1

SUMMARY OF THE MOST NOTABLE INSIGHTS PER SECTOR

Sector	2019 Index	2018 Index	Notable insights	Percentage of CAEs who strongly agreed with statement: 2019 Internal Audit has a sufficient degree of independence	Percentage of CAEs who strongly agreed with statement: 2018 Internal Audit has a sufficient degree of independence
National Government	2.2	2.5	On the question whether Ethics is an important part of their organisational culture, In 2018 41% strongly agreed but dropped in 2019 to 14%.	73%	71%
Provincial Government	2.7	2.5	The provincial government sector remains unchanged at 21% for the past year on Compliance to the question when it comes to corporate governance, your organisation goes beyond a tick box exercise to ensure a deep understanding of and commitment to implementing the principles and philosophy of good governance.	74%	75%
Municipal (Metro)	2.8	2.2	Metropolitan municipalities CAE's perceptions on Leadership has increased to 50% in 2019 from 33% in 2018 on the question of whether your oversight/governing body provides clear strategic direction with the focus on long term sustainability rather than short term thinking to achieve the desired outcomes of your organisation.	50%	66%
Municipal (District)	2.6	2.9	At district municipalities the Leadership scoring decreased slightly from 59% in 2018 to 54% in 2019 on the question of whether members of the oversight /governing body are adequately diverse and skilled and act with independence of mind, in the best interest of the organisation.	61%	76%
Municipal (Local)	2.5	2.7	Leadership perceptions dropped even further in the local municipal sector from 36% in 2018 to 27% in 2019 on the question whether there is effective collaboration among your organisations oversight committees.	70%	70%
State owned company	2.7	2.7	State owned companies Leadership scoring has not moved much from 13% in 2018 to 14% in 2019 on the question whether the leadership is familiar with and utilises all the integrated reporting principles in the organisation's value creation process.	61%	65%
Publicly held company	3.3	3.1	With regards to the Performance scoring by the publicly held companies sector, it has increased from 48% in 2018 to 64% in 2019 on the question of whether the organisation's executive team is functioning optimally in delivering against the strategy of the organisation.	77%	78%
Privately held large company	3.3	3.1	Performance has slightly increased for privately held companies from 52% in 2018 to 56% in 2019 on the question of whether the oversight/ governing body has adopted a stakeholder inclusive approach that considers the impact of its decisions and balances the needs and interests of its stakeholders.	78%	68%
SMME	2.9	2.6	The smme sector score has increased significantly for Performance from 25% in 2018 to 50% in 2019 on the question whether the organisation utilises its financial capital optimally so as to achieve the best possible sustainable outcomes.	33%	50%
Non-profit company	3.2	3.6	Operational Risk has taken a significant knock in the NPO sector with the score as 100% in 2018 but decreased to 40% in 2019 on the question of whether the process for identifying and managing risks is adequate and aligned to the organisation's strategic objectives.	70%	100%
Professional services firm	2.6	3.2	On the question of whether the organisation continually considers multiple potential futures to ensure an adaptive strategy to mitigate against unexpected External Risks that may arise beyond the boundaries within which the organisation operates, the professional services firms scored 40% in 2018 and a low 18% in 2019.	40%	90%
Other	2.9	2.5	The 'other' group score on Assurance increased significantly in the past year from 15% in 2018 to 54% in 2019 on the question of within your organisation, internal audit has adequate resources to enable it to execute its duties effectively.	77%	76%

RESEARCH METHODOLOGY

The core dimensions of corporate governance were identified and appropriate questions relating to each dimension were crafted. The survey consisted of three demographics-related questions, 33 multiple choice questions and three open-ended question. The multiple choice questions were designed and revised to incorporate the new King IV code of Governance, to cover the following seven dimensions: Ethics, Compliance, Leadership, Risk Management (i.e. Operational Risk and External Risk), Performance and Internal Audit. Each of the following potential responses was assigned a value as follows in order to aggregate scores into an Index that will be tracked over time:

0= strongly disagree; 1=slightly disagree; 2=neither agree nor disagree; 3=somewhat agree; 4=strongly agree

Over Six hundred (600) Chief Audit Executives (CAEs) on the IIA SA database were targeted for the survey, which took the form of a self-administered Quantitative web-based questionnaire in order to effectively and efficiently capture numeral data. It was critical that the survey elicited the most honest responses possible.

No personal demographic data was asked for and the survey was strictly anonymous. The survey was opened from 01 February to 30 June 2019. A total of Two hundred and thirty five (235) respondents completed the survey.

OVERALL RESULTS

Figure 1: Corporate Governance Index per dimension

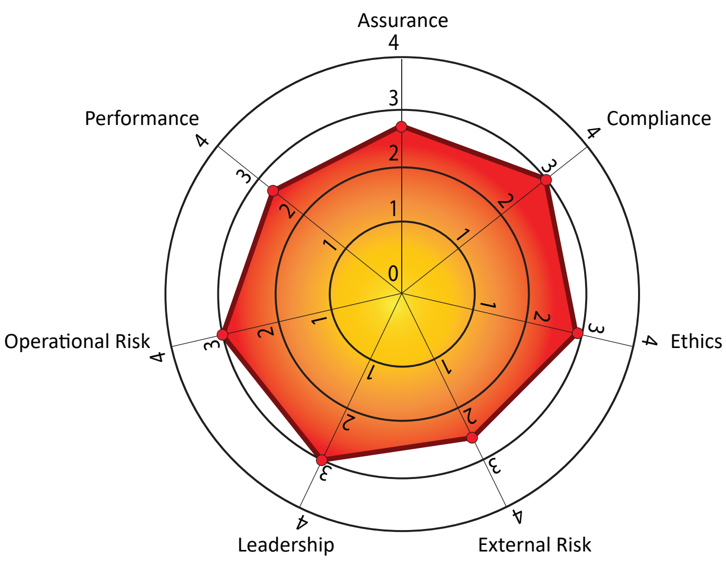


Table 1: Index Scores

Dimension	2019	2018	% change
Ethics	2.9	2.8	3.5%
Compliance	3.0	3.1	3.2%
Leadership	3.0	3.1	3.2%
Operational Risk	3.0	2.8	7.1%
Assurance	2.8	2.8	0%
Performance	2.7	2.6	3.8%
External Risk	2.6	2.6	0%
COUNTRY CGI	2.9	2.8	3.5%
Scale: 0 (lowest) to 4 (highest)			

The previous versions of the IIASA Corporate Governance Index is available on the IIASA website (www.iiasa.org.za) for comparison purposes.

Table 2: Index per Economic sector

Sector	Index
National Government	2.2
Provincial Government	2.7
Municipal (Metro)	2.8
Municipal (District)	2.6
Municipal (Local)	2.5
State owned company	2.7
Publicly held company	3.3
Privately held large company	3.3
SMME	2.9
Non-profit company	3.2
Professional services firm	2.6
Other	2.9
Scale: 0 (lowest) to 4 (highest)	

Table 3: Index per Industry sector

Sector	Index
Agriculture/Forestry/Fishing	3.2
Health/Pharmaceuticals	3.3
Manufacturing (incl. Packaging & Printing)	2.8
Education and Training	2.8
Banking/Finance/Insurance	3.4
Logistics (Transportation/Building)	2.4
Defence/Security	1.4
Wholesale and Retail	3.5
Mining/Quarrying/Energy/Oil/Chemical	3.5
Services (Community/Professional…)	3.0
Public Administration: public service	2.5
Tourism/Hospitality/Clothing/Food & Bev…	2.3
Technology (ICT/Telecom/Electronics)	3.2
Other	2.9

DEMOGRAPHIC DATA – I.E. ECONOMIC AND INDUSTRY SECTORS (%)

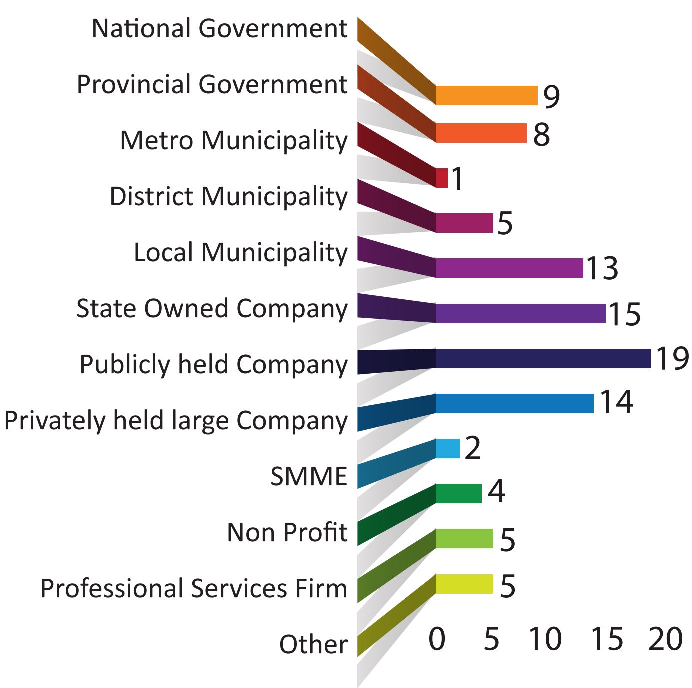


Figure 2: Economic sectors respondents (%)

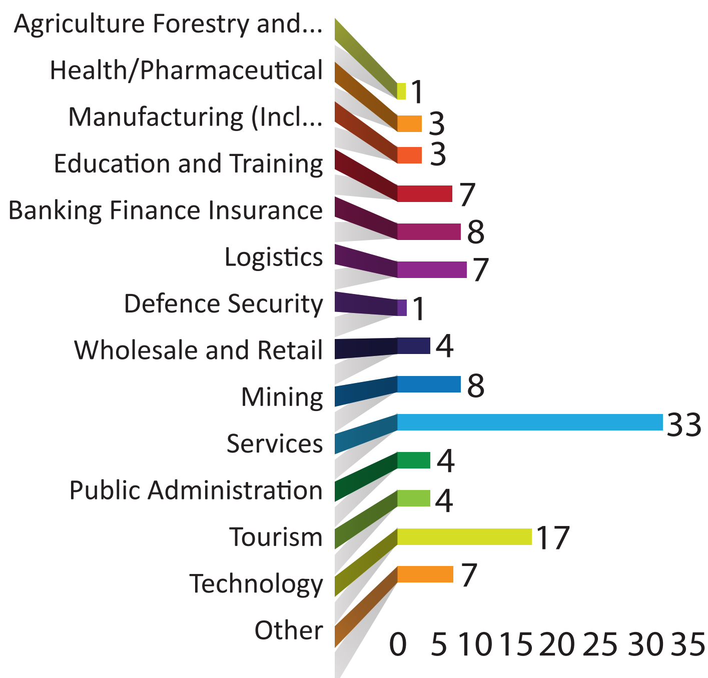


Figure 3: Industry sectors respondents (%)

RESULTS PER DIMENSION

ETHICS

(In this section some results are highlighted. The full list of questions and responses are on pages 23-25)

Typical question: Ethics is an important part of your organisational culture?

Figure 4: Breakdown of various responses

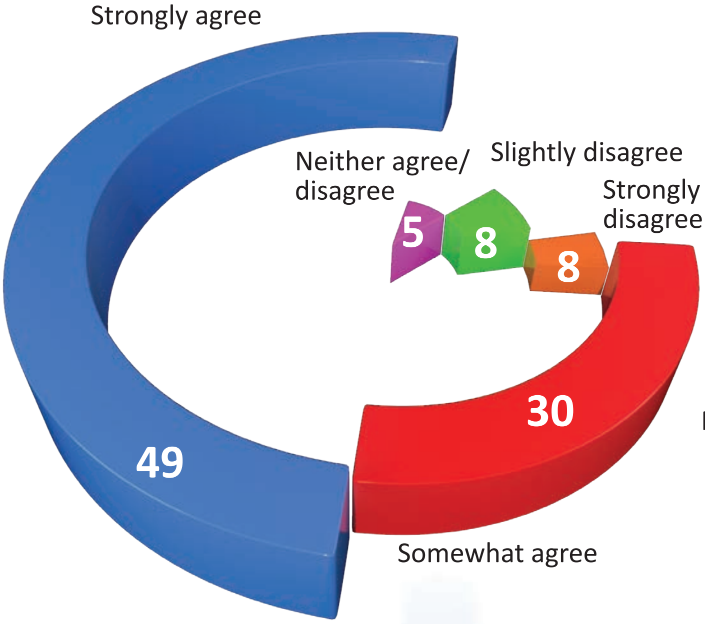
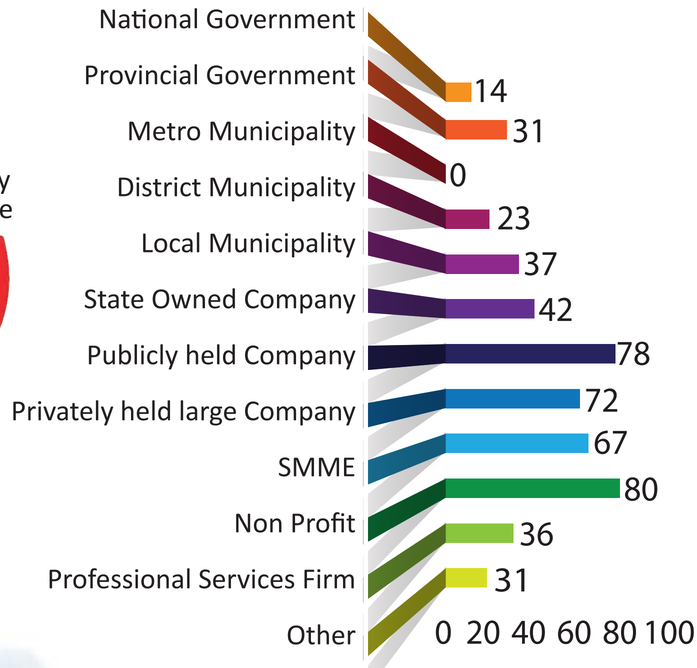


Figure 5: Respondents who strongly agree (% per sector)



ETHICS

The Ethics dimension has dropped in ratings over the last seven years. Where it enjoyed a rating of 3.4 in 2013 and 2015, it dropped to 2.8 in 2018 and 2.9 in 2019. The rating is a reflection on the current political and economic climate in the country. The decline of ethics is ultimately costing the country with regards to slow economic growth, negative outlook on trust, lack of leadership capability which impacts negatively on the very poor and vulnerable in society as well as human capital sustainability. Ethical behaviour and practices should be instilled at a leadership level. Leaders in organisations, should reflect honesty, accountability, integrity, fair justice and good conduct which is then in turn reflected throughout the organisation with all key stakeholders including employees, customers and suppliers. It is vital to maintain an effective ethical ethos within an organisation however to do this requires effective ethical controls in place as well as a robust ethical risk register. According to research conducted by the SA Board for people practices on leadership and governance, these are key factors to consider for an effective ethics management system:

- Commitment from Leadership
- Developing and setting an ethics strategy with clear goals
- The ethical standards should be communicated regularly which sets the tone for ethical behaviour
- Creating ethical awareness through communication and advocacy campaigns
- Encouraging continuous ethics assessments and reporting

The last two AEPF (anti-corruption and ethical practices forum) annual ethics survey research reports reflect that less than 20% of professionals in the accounting, auditing, risk management, legal and governance space, believe that "doing the right thing is more important than financial success" and less than 10% strongly agree that leadership in the private or public space are ethical. These statistics indicate that there is a serious lack of trust in leadership and a lack of ethical ethos in society as reflected by professionals. More and more reports of intimidation of Internal Auditors are being reported with fatal assaults in some cases. In the same research report, it is noted that when asked if they reported unethical behaviour 42% in the public sector agreed and 58% in the private sector. Only 16% agreed that it was easy to report on unethical behaviour and 22% agreed that leadership took positive action when unethical behaviour was reported.

It is in this context that we need to start to realise that ethical positive fundamental change in behaviour and our thinking can only be beneficial for everyone concerned. We need to start having deeper conversation on how to deal with ethical malpractices and put stringent corrective measures in place as this shift can only be beneficial to all South Africans.

RESULTS PER DIMENSION

COMPLIANCE

Typical question: Your oversight body ensures continual monitoring of the regulatory environment and compliance with relevant legislation, regulation standards?

Figure 6: Breakdown of various responses

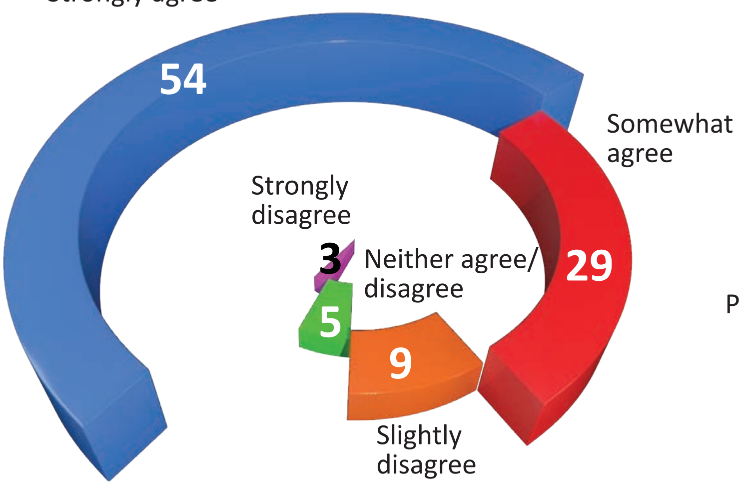
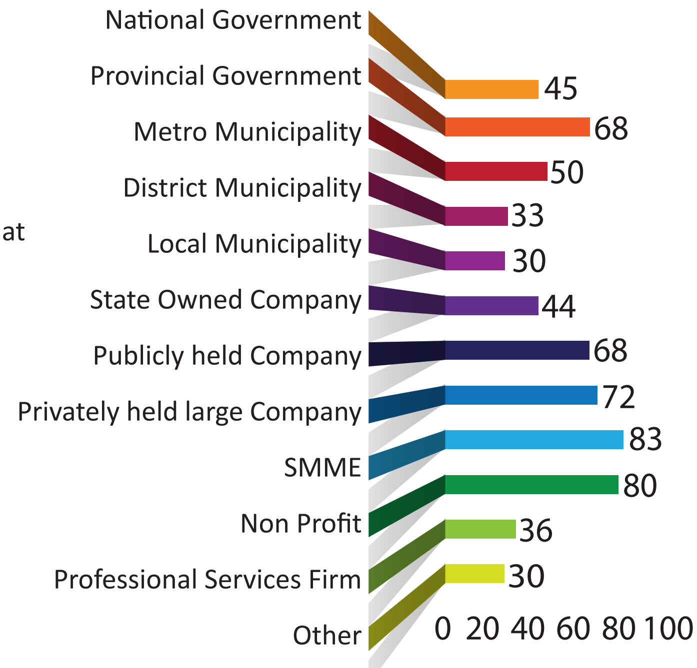


Figure 7: Respondents who strongly agree (% per sector)



Most chief audit executives in South Africa over the past seven years has given the Compliance dimension a rating of 3 out of 4 for governance. We are assured, to a certain degree that policies, laws and regulations have been put in place and adhered to. It would appear then that organisations are conforming to regulations and principles set out and predetermined by leadership and governing bodies. However if we look at the recent research conducted by the Institute of Risk Management SA with regards to the top risks in the country there is a slightly differing view. Government policy, legislative changes, regulatory changes and uncertainty was ranked the second highest risk in SA in 2018. In 2019 this risk was ranked ninth and the top risk identified was failure of governance in the public sector.

Non-compliance, as we know, leads to investigations and litigations. Since the change of government leadership, there have been four judicial enquiries put in place in South Africa, the State Capture, Sars Commission, the PIC commission and the NPA commission, to investigate the abuse and misuse of state resources, the failure of adherence to governance principles and corruption at state institutions. These public hearings, whilst transparent to the public, fail to implement stringent punitive measures.

Compliance in organisations is key for the following reasons:

- Positive reputation management, trust and a feeling of safety for all stakeholders of the organisation including employees, customers and suppliers.
- This in turn then would lead to peace of mind as crisis and complaints are dealt with effectively.
- Criminal investigations and charges are averted.
- Stability is encouraged which increases confidence and consistency.
- Changes, new thinking, creativity and innovation can thrive better in a compliant environment.
- Better risk controls are in place to manage risks effectively.

Organisations need to align their strategies, people, processes and technologies to compliance governance principles to ensure effective outcomes.

Typical question: The Leadership is familiar with and utilises all the Integrated Reporting principles in the organisation's value creation process.

Figure 8: Breakdown of various responses

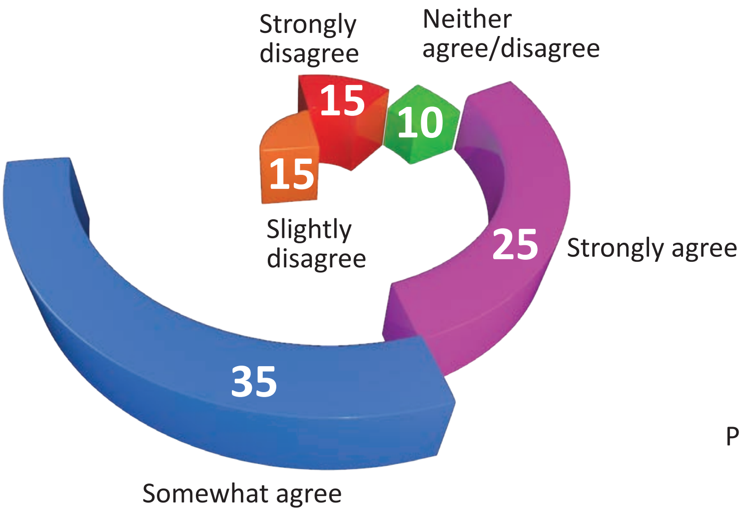
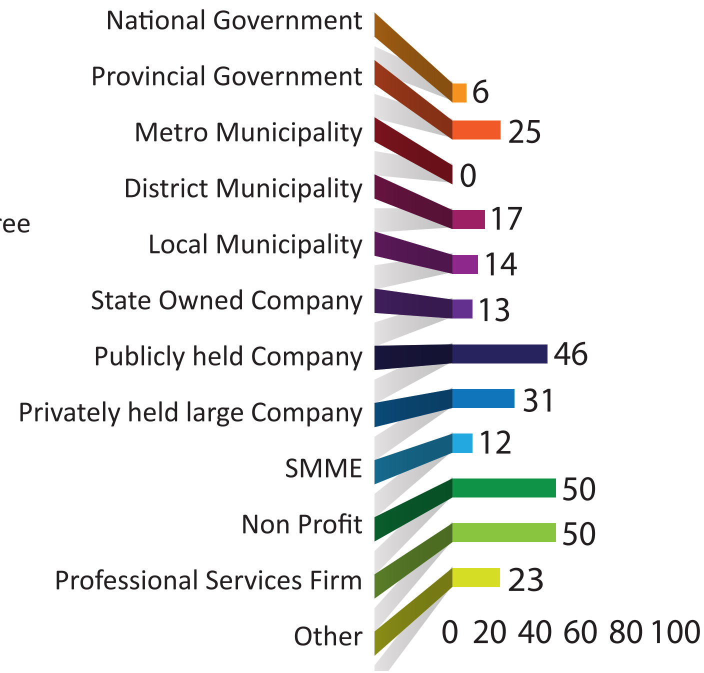


Figure 9: Respondents who strongly agree (% per sector)



As with the Compliance dimension of governance, the Leadership dimension has also enjoyed a rating of 3 out of 4 for the past seven years. When looking at the rating there seems to be a sense of imbalance as media reports indicate otherwise on leaders that are under fire for lack of governance and leadership direction in both the private and public sectors.

This public leadership scepticism and lack of leadership competence is more often than most times perceived to be a lack of qualified skills, vision and governance direction. People are increasingly losing faith and trust in the leaders and on the other side leaders legitimacy and credibility is being questioned. We then also have to look at the burn out effect as crisis situations arise as it leads to increased stress and tensions experienced. Does this impair good judgement and where is the balance? The question is, are our leaders well equipped to deal with leadership crisis situations? Ethical leadership does not experience this challenge as doing the right thing in business and government carries with it the peace of mind of credibility and trust.

Leaders need to ensure optimal use of capitals almost as stocks of value, to ensure sustainable economic growth. They need to know how to balance the needs of the organisation and its impact on the broader environment. They need to know how to safeguard against the effects of burnout. Governance and oversight bodies also need to fully understand their roles and responsibilities and the impact on performance of an organisation as well and a balanced distribution of power.

The future of South Africa is at stake and we need strong ethical leaders to take charge and reshape thinking, operations and implementation.

RISK MANAGEMENT

OPERATIONAL RISK

Typical question: The process for identifying and managing risks is adequate and aligned to your organisation's strategic objectives?

Figure 10: Breakdown of various responses (%)

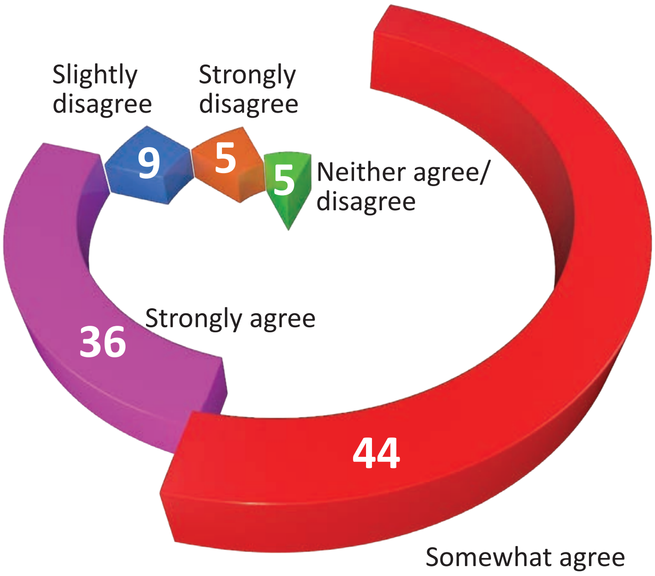


Figure 11: Respondents who strongly agree (% per sector)

In the past seven research reports we have seen this dimension being rated a steady 2.9 but it has slightly improved in 2019 to 3.0 out of 4. Some of the broad focus areas of Internal Audit includes risk management, organisational objectives, operational efficiency and effectiveness and chief audit executives' pay close attention to the operational risk within organisations so as to pre-empt red flags and have preventative controls and measures in place in order to avert high risk.

Operational risk is an ongoing process and key for any organisation is a risk register that should be evaluated and updated annually.

The main purpose of a risk register is to:

- Identify key risks
- Identifies control measures
- Identify action plans
- Identify implementation plans
- Identify who is responsible for implementation

The result of effective risk management is avoidance of litigation, cost reduction and streamlined effective operations. Leaders have a tendency to overlook this governance dimension and underestimate its value to the organisation overall strategic objectives and unintended challenging consequences occurring. This could be detrimental to failure of organisational strategies.
The 2019 Institute of Risk Management research report on the top South African risks identifies the following top 5 risks:

- Structurally high unemployment
- Growing income disparity and inequality
- Failure of governance- public
- Unmanageable fraud and corruption
- Inadequate and/or substandard education and skills development

When it comes to Operational risk the key question for leaders is: How do you determine your risk appetite?

EXTERNAL RISK

Typical question: Your organisation continually considers multiple potential futures to ensure an adaptive strategy to mitigate against unexpected external risks that may arise beyond the boundaries within which the organisation operates

Figure 12: Breakdown of various responses

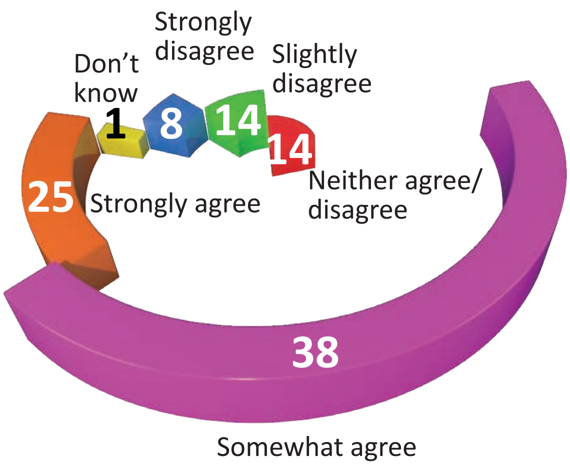
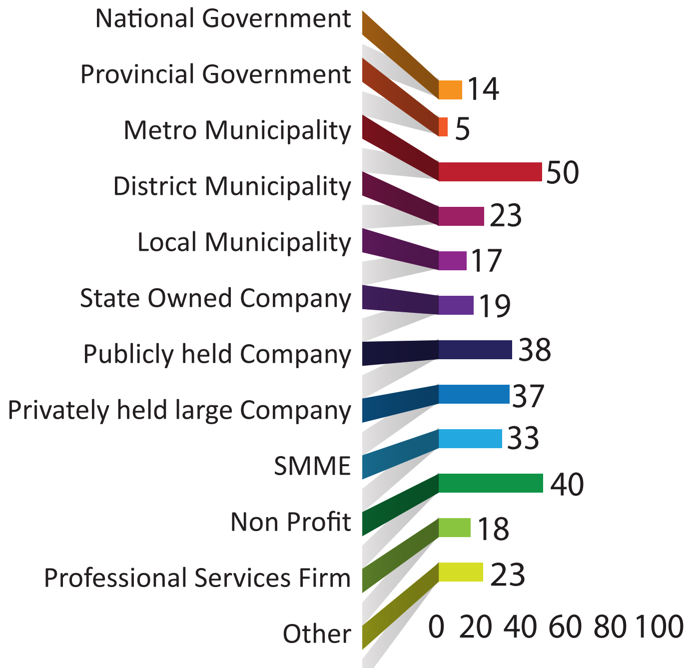


Figure 13: Respondents who strongly agree (% per sector)



External risk was rated a low 2.1 out of 4 in 2014, when first introduced to the IIA SA corporate governance index report. The highest it was ranked was in 2017 at 2.8. It has dropped to 2.6 in 2019. Are organisations ready for disruptions? Too often we see reactive rather than proactive solutions to disruptions affecting organisations.

External risks can be perceived as both a positive or negative i.e. both as an opportunity or a critical threat. Key external disruptions identified, to name a few, are:

- the rise and fall of currencies and oil prices
- forced retrenchments
- increased global heating
- increased usage of artificial intelligence
- increased cyber crime
- ongoing corruption

It is critical for leaders to keep monitoring external risks while dealing with the increased pressure to deliver on performance. We are always reminding leaders to consider multiple potential futures and make provisions, plan in an integrated manner, connecting all operations to be ready for any potential external disruption. Do not be caught off-guard.

Typical question: The information, communication and technology strategy is aligned to the strategic objectives of your organisation?

Figure 14: Breakdown of various responses

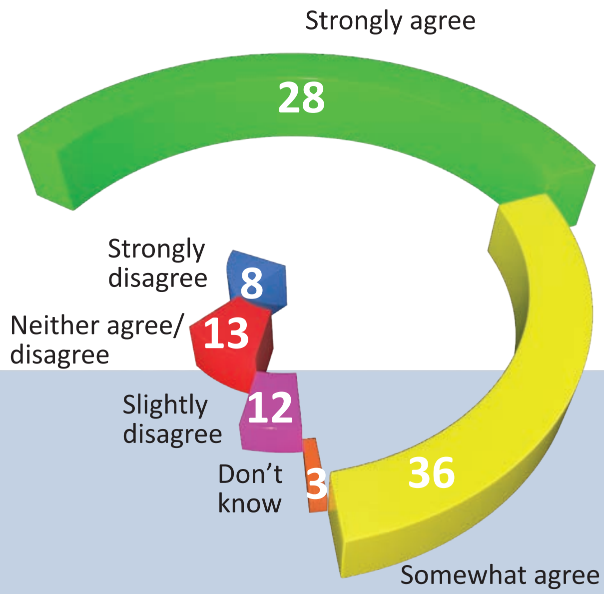
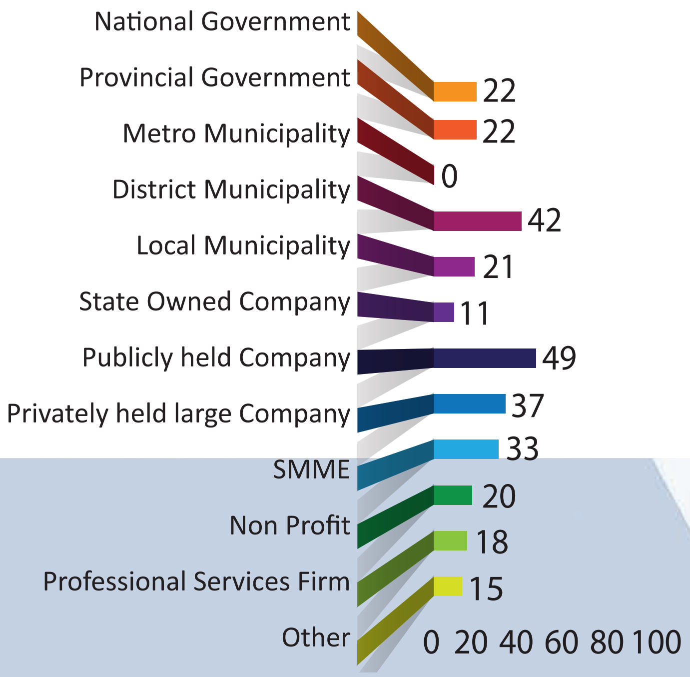


Figure 15: Respondents who strongly agree (% per sector)



The Performance dimension has enjoyed a steady 2.6 rating over the past years out of 4 for corporate governance. The rating in 2019 is a 2.7 with the highest rating given in 2017 of 2.8. This is an area where chief audit executives feel that so much more can improve and be done to improve performance in organisations.

We are operating in the “Fourth Industrial Revolution” where everything, everyone and everywhere is interconnected. A connected intelligence era, as it is known to be. According to the CICSCO network on technology we need to familiarise ourselves with the following information and communication technology terms and phrases:

- Artificial Intelligence
- Cloud storage
- 5G
- Cybersecurity
- Blockchain
- The internet of things

We cannot emphasise enough the importance of organisations aligning their ICT strategic objectives to the overall organisational strategic objectives as these new technologies can impact and shape fundamental changes not only in organisations but in society. We will note an increase in regulations and laws regarding new technologies and more industries are moving towards self-regulation. Change is not easy and acceptance to changes is even more difficult to deal with but evolution is inevitable and it is up to us to be prepared to effect these changes to improve on our way of life for the better.

Typical question: Your organisation has suitable human resource capital to execute its strategy effectively and optimally?

Figure 16: Breakdown of responses

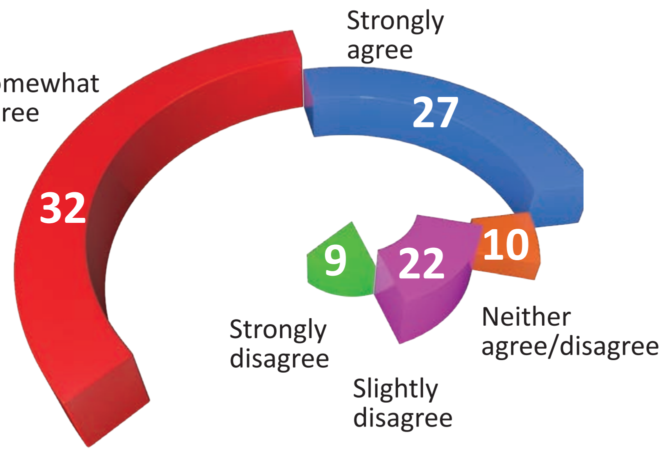


Figure 17: Respondents who strongly agree (% per sector)

In order for organisations to maintain sustainability, corporate governance management and implementation is vital. The area of "Human Capital" or "HR Governance" is even more key. To maintain a performing, ethical, high morale workforce is almost impossible for any organisation today. We cannot emphasise enough that achieving that balance of performance and good governance begins at the top with leadership setting the tone. HR Capital is about the management and development of people in organisations in a dignified manner. Leadership needs to concentrate on strengthening skills and talent and capitalising on knowledge and output and this is an ongoing learning and training process. We cannot say that it will be the answer to all organisational performance solutions but it will certainly enhance productivity and service delivery.

The South African Department of labour has identified the following as ultimate goals when human capital management is effectively managed and included the organisational strategy:

- Improved economic efficiency and productivity
- Creation of decent employment
- Promoting labour standards and fundamental rights at work
- Providing adequate social safety nets to protect vulnerable workers
- Sound labour relations
- Eliminating inequality and discrimination in the workplace
- Enhancing occupational health and safety awareness and compliance in the workplace and
- Give value to social dialogue in the formulation of sound and responsive legislation and policies to attain labour market flexibility for
- Competitiveness of enterprises which is balanced with the promotion of decent employment.

ASSURANCE

INTERNAL AUDIT

Typical question: Within your organisation Internal Audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference?

Figure 18: Breakdown of responses (%)

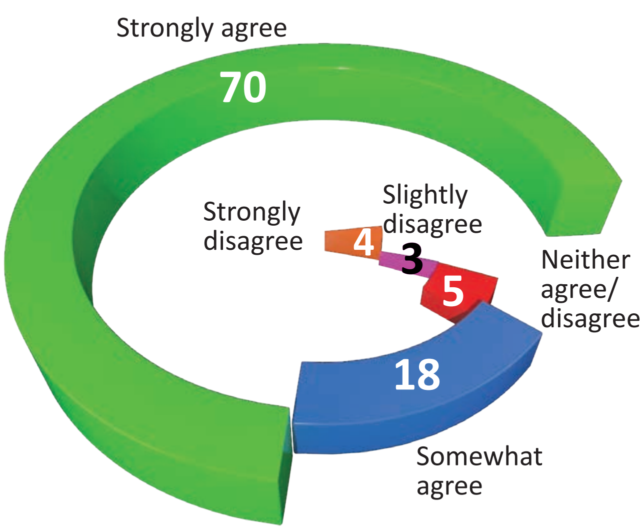
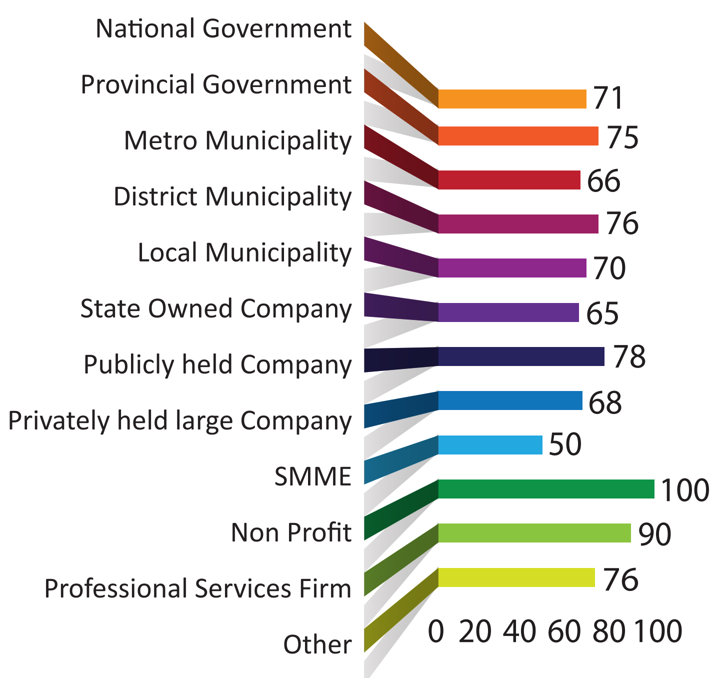


Figure 19: Respondents who strongly agree (% per sector)



Chief Audit Executives started out with a rating of 3.5 out of 4 for Internal Audit in 2013. This governance rating has decreased in the last 7 years and was rated a 2.8 in 2018 and 2019. This is a red flag for organisational leadership, given the recent media reports on audit negligence. What is fundamental is to realise that there is a difference between "Internal Audit" and "External Audit" with the latter focusing on the provision of a specific focus area with regards to assurance of accurate financial statements. In the case of Internal Audit, the focus is broader and includes the independent, objective assurance of risk management, corporate governance, compliance and organisational objectives amongst its functions.

Stakeholders of internal audit need to know what to expect and what is expected in order to impact on the value that internal audit can add. Key to note for stakeholders are areas where expectations are not being met by the internal audit function and raise those red flags.

MAIN FINDINGS

Our key research findings are:

1. The Country index has eased back to an overall 2.9 which was experienced in the period from 2014 -2016. The overall rating of 3 out of 4 on corporate governance has still not been achieved since 2013.

2. Compliance maintains a steady rating of 3 out of 4. This score indicates consistency and positivity with regards to organisations complying with regulations and government policies.

3. For the past two years Ethics has scored a steady 2.8 and 2.9 in comparison to the 3.4 score in 2013 and 2015 and 3 out of 4 ratings for previous years. This perception correlates with the overall sentiment on ethics experienced in the country.

4. Assurance, like the ethics dimension has dropped over the last two years. This dimension has enjoyed a score of 3 out of 4 with the past indexes, reaching a peak in 2013 with a score of 3.5 out of 4. Chief audit executives are indicating that the Internal Audit function within organisations in SA, is not experiencing the relevant independence and support by the leadership at the top.

5. Operational Risk has a 7.1% increase in rating for the past year from 2.8 in 2018 to 3.0 in 2019. There has been slow and steady efforts in place on identifying and managing internal risks in organisations.

6. In the areas of Performance and External Risk, we have not seen significant changes in scoring with a steady rating of 2 out of 4 for the past seven years. We do encourage more to be done in these areas as it is vital in terms of the impact it has on employment and the economy overall.

THE WAY FORWARD

The IIA SA Corporate Governance Index report has measured the state of governance in South Africa, as perceived by the country's most senior Internal Auditors across most industry and economic sectors for the past seven years and will continue to do so going forward. Leadership in South Africa is encouraged to heed to the call to set the tone at the top and lead by example, set ethical boundaries, maintain compliance, set futuristic goals, improve on performance and include internal audit in strategic organisational goals. By doing this it will ensure a positive outlook and improvements regarding the way forward for future sustainability in South Africa.

APPENDIX 1: SUMMARY OF ANSWERS TO SURVEY QUESTIONS (%)

ETHICS

Questions

	Strongly disagree	Slightly disagree	Neither agree/ disagree	Somewhat agree	Strongly agree	Don't know
The oversight/governing body (such as the board, regulator, audit committee etc), sets a clear tone of zero tolerance toward unethical behaviour, including fraud and corruption in your organisation	4	5	5	24	62	0
Ethics is an important part of your organisational culture	8	8	5	30	49	0
Your organisation has a social and ethics committee or similar structure in place that goes beyond mere compliance and reports on organisational ethics, corporate responsibility, sustainable development and stakeholder relationships	25	10	7	27	30	1
Your oversight / governing body ensures that there are measures in place that enable the organisation to remunerate fairly, responsibly and transparently	10	5	7	29	48	0

COMPLIANCE

Questions

	Strongly disagree	Slightly disagree	Neither agree/ disagree	Somewhat agree	Strongly agree	Don't know
When it comes to corporate governance, your organisation goes beyond a tick box exercise to ensure a deep understanding of and commitment to implementing the principles and philosophy of good governance	11	12	10	28	39	0
Your oversight / governing body ensures continual monitoring of the regulatory environment and compliance with relevant legislation, regulation and standards	3	9	5	29	54	0

LEADERSHIP

Questions

	Strongly disagree	Slightly disagree	Neither agree/ disagree	Somewhat agree	Strongly agree	Don't know
Your Oversight / governing body provides clear strategic direction with the focus on long term sustainability rather than short term thinking to achieve the desired outcomes of your organisation	7	6	8	34	45	0
Members of your oversight / governing body are adequately diverse and skilled and act with independence of mind, in the best interest of the organisation	7	8	6	22	56	0
The composition, roles and responsibilities of your oversight / governing body and its committees are appropriate with minimal overlap and fragmentation of duties	4	6	6	35	48	1

LEADERSHIP (CONTINUED)

Questions

	Strongly disagree	Slightly disagree	Neither agree/ disagree	Somewhat agree	Strongly agree	Don't know
There is effective collaboration among your organisation's oversight committees	5	7	8	36	42	2
There is a balanced distribution of power among your organisation's oversight committees	5	11	9	27	46	2
Your audit committee is effective in all the dimensions within the ambit of its responsibilities	4	7	7	21	60	1

PERFORMANCE

Questions

	Strongly disagree	Slightly disagree	Neither agree/ disagree	Somewhat agree	Strongly agree	Don't know
Your organisation's executive team is functioning optimally in delivering against the strategy of the organisation	9	10	8	37	35	1
Your oversight / governing body has adopted a stakeholder inclusive approach that considers the impact of its decisions and balances the needs and interests of its stakeholders	5	9	12	33	39	2
Your oversight / governing body has adequate processes in place to measure and improve its own performance and adherence to governance principles as well as that of its Chair, committees and individual members	4	9	11	34	39	3
Your oversight / governing body ensures accountability of organisational performance through accurate reporting and disclosure to the organisation's stakeholders	3	7	5	34	50	1
The Information Communication Technology (ITC) strategy is aligned to the strategic objectives of your organisation	8	12	13	36	28	3
Your organisation has suitable human resource capital to execute its strategy effectively and optimally	9	22	9	32	28	0
Your organisation's human resource capital is optimally utilised	12	19	10	37	21	1
Your organisation utilises its financial capital optimally (i.e. managing finances) so as to achieve the best possible sustainable outcomes	8	14	9	31	37	1
Given its current resources your organisation's output / delivery is at optimal level	14	14	13	39	19	1
The leadership ensures that integrated thinking is integral in the structures and processes that the organisation utilises in delivering on its strategy	9	21	11	35	23	1

OPERATIONAL RISK

Questions

Questions	Strongly disagree	Slightly disagree	Neither agree/ disagree	Somewhat agree	Strongly agree	Don't know
The process for identifying and managing risks is adequate and aligned to your organisation's strategic objectives	5	9	5	44	36	1
The leadership gives adequate attention to the opportunities, risks and disruptions associated with advances in technology and information	10	14	8	40	27	1

EXTERNAL RISK

Questions

Questions	Strongly disagree	Slightly disagree	Neither agree/ disagree	Somewhat agree	Strongly agree	Don't know
Your organisation continually considers multiple potential futures to ensure an adaptive strategy to mitigate against unexpected external risks, that may arise beyond the boundaries within which the organisation operates	8	14	14	38	25	1

ASSURANCE

Questions

Questions	Strongly disagree	Slightly disagree	Neither agree/ disagree	Somewhat agree	Strongly agree	Don't know
The leadership in your organisation (i.e. senior and executive management as well as the oversight/governing body) displays a good understanding of the varying roles of assurance providers. (Such as internal audit, external audit, risk management, etc.)	9	16	5	30	40	0
Your organisation uses a combined assurance framework to provide a coordinated approach to assurance activities	14	14	8	38	25	1
Within your organisation, internal audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference	4	2	5	18	70	1
Within your organisation, internal audit has adequate resources to enable it to execute its duties effectively	14	14	4	35	33	0

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The Institute of
Internal Auditors
South Africa