

CGI
2020



**The Institute of
Internal Auditors
South Africa**



CORPORATE GOVERNANCE INDEX



PROGRESS THROUGH SHARING

The Institute of Internal Auditors South Africa (IIA SA) is part of an international network representing the interests of internal auditors worldwide and is the internationally recognised authority, standard setter, principal educator and acknowledged leader in certification, research and technological guidance for the profession of internal audit. The IIA SA provides internal auditors with the support and opportunities to develop to their fullest potential.

We serve internal auditors by offering:

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**The Institute of
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South Africa**

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The information contained in this report is intended to provide the reader with general information and guidance and may not be applicable in all circumstances.

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FOREWORD



In an introspection, of a most disrupted year we have experienced, I am once again reminded of the important role internal audit plays in providing assurance on the governance processes and the state of governance in our organisations.

As we present the eight edition of the IIA SA Corporate Governance Index report, the country is easing into a level 1 stage of the alert system of lockdown of the global Covid-19 pandemic. South Africa had one of the most strict lockdown strategies in the world and there were many changes we had to adapt to in 2020 and in some cases, we were forced into, such as our way of life, the way we work, the way we socialise and the way we take care of our health and safety coupled with increasing reports of fraud and corruption, I am certain that there is a great need to protect our organisations with the application of sound governance principles and keeping governance structures intact.

The Institute of Internal Auditors SA is once again very proud to present the annual Corporate Governance Index report, the eighth edition. Chief Audit Executives are targeted each year as we tap into their insights to provide their views, opinions and perception on the current state of governance within their organisations. We have singled the CAEs as they have a holistic view, almost a bird's eye view, on the state of governance in organisations.

Over the past eight years we have seen Corporate Governance dimensions decrease, increase and remain consistent. A dimension of particular concern is the Ethics one, as it has decreased in ratings from a 3.4 when the report was first published in 2013, to a 2.9 in 2020. This is one area that has been in the media spotlight this year for organisations both in the public and private sector and it would be remiss of me not to remind leaders that Ethics should not be an occasional ad hoc conversation but an ethical culture is vital for long term sustainability for any organisation.

Compliance is a dimension that has remained consistent over the years but a red flag to look out for is the External Risk dimension which has never enjoyed a rating higher than 2.8 out of 4 for Corporate Governance. This indicates that chief audit executives, over the past eight years, do not strongly agree that organisations are continually considering multiple potential futures to ensure an adaptive strategy to mitigate against unexpected external risks that may be beyond the boundaries within which the organisation operates. This is evident when we reflect on how organisations had to deal with the global Covid-19 pandemic as most organisations were caught unaware and had to adapt, look to innovation, change organisational strategies and in extreme cases even close up shop. I cannot stress, enough, the importance of managing and maintaining organisational risk and aligning it to the organisations strategic objectives.

It has been interesting to monitor how Governance trends are developing in the various economic and industry sectors as we are in a position to review which sectors are improving and which ones are losing ground in the South African

context. Over the years where the private sector has consistently performed well and scored a consistent 3 out of 4 for good governance practices and in the government space, it has rated fairly well, particularly National government highest rating of 2.8 out of 4 points in 2020. The Banking and Health sectors have performed well over the years and of particular interest is the Technology sector rating which has increased to an all-time high of 3.3 out of 4. A sector that has dropped significantly in rating is Agriculture which decreased to a 2.6, its lowest rating yet.

We regard the King Code as the beacon of governance, hence our strong focus on the King IV Code in setting the questions for our survey questionnaire. I would like to thank all involved with the development and production of our eighth edition of the CGI report with particular reference to Dr Blanche Steyn, Department of Auditing at the University of Pretoria, with her work on data analysis and information for the governance ratings and scoring. It is our hope that leaders in the various industry sectors will heed the wake-up call to focus more seriously on governance practices that will result in more introspection and ultimately an improved Corporate Governance perception.

Julius Mojapelo
Chief Executive Officer
The Institute of Internal Auditors South Africa
November 2020

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.iasa.org.za

EXECUTIVE SUMMARY

The 2020 IIA SA's Corporate Governance Index, reflects the views of one hundred and ninety (190) 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 eighth annual publication, was developed through the technology and research assistance of the University of Pretoria and in particular, Dr Blanche Steyn (CA (SA), ACMA, CGMA, CISA and CIA), 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 2020 research study indicated the following:

1. The overall **country CGI score** for 2020 is **2.8**. This is a slight decrease from the 2.9 rating in 2019. The 3.2 rating for the first CGI report in 2013, has still not been attainable to date.
2. The **public sector** respondents were the majority at **51%**. There was decrease in response from the **Private Sector** from 50% in 2019 to **41% in 2020**. Respondents from Other sectors made up the 8%.
3. Less than **30% Strongly Agreed** responses:
 - a. Your organisation's human resource capital is optimally utilised. (2018-16%; 2019-20%; 2020-14%). This is a significant drop in rating indicating a serious lack of knowledge and skills in the workforce of organisations of South Africa.
 - 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. (2018-24%; 2019-25%; 2020-26%). This rating indicates a steady improvement in organisations, when it comes to mitigating planning for external disruptions
 - c. The leadership is familiar with and utilises all the integrated reporting principles in the organisations value creation process. (2018-24%; 2019-25%; 2020-24%) There is an indication that leadership in organisations do not fully grasp the importance of integrated reporting when reporting on corporate governance.
 - d. The Information Communications and Technology strategy is aligned to the strategic objectives of the organisation. (2018-29%; 2019-28%; 2020-29%). The ITC strategies in organisations are key to the new way of work for the future and must be a top priority.
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. (2018-65%; 2019-62%; 2020-67%). This reflects a positive change in organisations when it comes to creating a strong ethical culture.
 - b. Your audit committee is effective in all the dimensions within the ambit of its responsibilities. (2018-60%; 2019-60%; 2020-61%) Most respondents agree that audit committees are effective in their execution of duties.
 - c. Within your organisation Internal Audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference. (2018-72%; 2019-70%; 2020-73%). This is a positive indication that Internal Audit is able to function independently and without bias.
5. Respondents were more confident in their responses in the 2020 survey as more than 60% answered to "Strongly Agree" in their responses. Where in the 2019 CGI report, respondents were more cautious in their responses and 60% answered to the "Somewhat Agree".
6. The top 3 emerging risks identified by the Chief Audit Executives that Organisations should be aware of are:
 - a. Cyber security
 - b. Automation
 - c. Operational Health and Safety
7. The top 3 emerging risks the Internal Audit profession should be aware of are:
 - a. Digitisation of the workforce
 - b. Agility of the Internal Audit function
 - c. Changing of the risk landscape
8. The top emerging risks the IIA SA should be aware of to ensure the sustainability of the Internal Audit profession are:
 - a. How to stay relevant and become more agile
 - b. How Internal Audit can be a champion for Governance
 - c. Being innovative with the Internal Audit approach

TABLE 1

SUMMARY OF THE MOST NOTABLE INSIGHTS PER SECTOR

Sector	2020 Index	2019 Index	Notable insights	Percentage of CAEs who strongly agreed with statement	
				2020 Internal Audit has a sufficient degree of independence	2019 Internal Audit has a sufficient degree of independence
National Government	2.8	2.2	Ethics has seen a positive change in National Government when on the question of whether the oversight body ensures that there are measures in place that enable the organisation to remunerate fairly, transparently and responsibly in 2019 32% strongly disagreed and in 2020 44% strongly agreed.	81%	73%
Provincial Government	2.6	2.7	Provincial Government has seen an increase in Ethics where on the question whether the oversight body sets a clear tone of zero tolerance towards unethical behaviour 53% strongly agreed in 2019 and in 2020 it was 63%.	78%	74%
Municipal (Metro)	2.8	2.8	Metropolitan municipalities CAE's perceptions on Compliance has increased to 67% in 2020 from 50% in 2019 on the question of whether your oversight/governing body ensures continual monitoring of the regulatory environment and compliance with relevant legislation.	83%	50%
Municipal (District)	3.1	2.6	At district municipalities the Leadership scoring has seen a significant increase in the Leadership rating from 54% in 2019 to 75% in 2020 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.	75%	61%
Municipal (Local)	2.6	2.5	Leadership perceptions dropped even further in the local municipal sector from 27% in 2019 to 16% strongly agreed in 2020 on the question whether there is effective collaboration among your organisations oversight committees.	60%	70%
State-owned company	2.5	2.7	State owned companies Performance scoring has seen a steady decline in recent years on the question of whether the organisations executive team is functioning optimally in delivering against the strategy of the organisation, in 2019 22% strongly agreed and 19% in 2020.	69%	61%
Publicly held company	3.3	3.3	The Performance dimension has remained consistent in its rating by the publicly held companies sector, on the question of whether the organisation's 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 at is was rated 51% strongly agreed in 2019 and 50% in 2020.	71%	77%
Privately held large company	3.3	3.3	The Performance rating has seen an increase for privately held companies from 37% in 2019 to 52% strongly agreed in 2020 on the question of whether the leadership gives adequate attention to the opportunities, risks and disruptions associated with advances in technology and information.	74%	78%
SMME	2.5	2.9	The SMME sector rating for Operational Risk has been very cautious on the question whether the organisation continually considers multiple potential futures to ensure an adaptive strategy to mitigate against unexpected external risks as it was rated 33% strongly agreed in 2019 but in 2020 it was rated 50% somewhat agreed.	50%	33%
Non-profit company	3.1	3.2	The NPO sector has rated Assurance high once again on the question of whether your organisations Internal Audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference as it was rated 70% strongly agreed in 2019 and 75% in 2020.	75%	70%
Professional services firm	3.1	2.6	On the question of within your organisation Internal Audit function has adequate resources to enable it to execute its duties effectively, the Assurance rating decreased from 45% in 2019 to 28% in 2020.	75%	40%
Other	2.6	2.9	The 'other' group rating is consistently low for Performance on the question whether the Information Communications Technology (ICT) strategy is aligned to the strategic objectives of your organisation as it was rated 15% strongly agreed in 2019 and 23% in 2020.	76%	77%

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 10 March to 30 September 2020. A total of One hundred and ninety (190) respondents completed the survey

IIA SA STAKEHOLDER NETWORK

The Institute of Internal Auditors South Africa (IIA SA) has created a service, which is aimed at the stakeholders of internal audit. The Stakeholder Network is a free subscription service designed to keep all those, who are served by internal audit, up to date with all internal audit related matters affecting them. This resource centre is a valuable tool for oversight bodies such as Audit Committees, executive management as well as general management who engage with internal audit on a regular basis. It touches on matters such as how to maximise the value derived from internal audit, how to employ an internal auditor, simplifying the internal audit standards for non-internal auditors, what questions to ask of internal audit and what to expect from your internal audit function.

Stakeholders who join the network will receive information from the IIA SA, be able to seek advice from the IIA SA technical department, and influence the direction in which the Internal Auditing profession serves your needs. Here you can find guidance papers on understanding IA standards and processes, information, new and current trends in Internal Auditing as well as research papers that may be of relevance to you as an audit committee member, board member and/or leaders in your respective organisations.

For more information visit: www.iiasa.org.za or
contact: Laverne Leibrant on laverne@iiasa.org.za



**The Institute of
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South Africa**



Figure 1: Corporate Governance Index per dimension



Table 1: Index Scores

Dimension	2020	2019	% change
Ethics	2.9	2.9	0%
Compliance	3.0	3.0	0%
Leadership	3.0	3.0	0%
Operational Risk	2.9	3.0	3.3%
Assurance	2.8	2.8	0%
Performance	2.7	2.7	0%
External Risk	2.6	2.6	0%
COUNTRY CGI	2.8	2.9	3.4%

Scale: 0 (lowest) to 4 (highest)

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

The overall Country Index has moved down slightly from the constant 2.9 to 2.8 but remains below the 3.2 score when the first report was published in 2013. Most of the corporate governance scoring has remained constant in the last year with only Operational Risk that has decreased from 3 to 2.9. This is a positive reflection over the past year with all the economic disruptions that occurred with the Covid-19 global pandemic that has impacted on many business organisations across the country.

In terms of economic sector ratings, National Government, District Municipality and Professional Services Firms had significant positive ratings in 2020. In the industry sector the Banking sector score has decreased from an excellent 4 out of 4 rating in 2019 to 3.3 in 2020. The Logistics industry rating has been declining in corporate governance ratings in the past few years.

OVERALL RESULTS

Table 2: Index per Economic sector

Sector	Index
National Government	2.8
Provincial Government	2.5
Municipal (Metro)	2.8
Municipal (District)	3.2
Municipal (Local)	2.5
State owned company	2.5
Publicly held company	3.1
Privately held large company	3.2
SMME	2.7
Non-profit company	3.0
Professional services firm	3.2
Other	2.8
Scale: 0 (lowest) to 4 (highest)	

Table 3: Index per Industry sector

Sector	Index
Agriculture/Forestry/Fishing	2.6
Health/Pharmaceuticals	3.1
Manufacturing (incl. Packaging & Printing)	2.9
Education and Training	2.9
Banking/Finance/Insurance	3.3
Logistics (Transportation/Building)	2.1
Defense/Security	0
Wholesale and Retail	3.4
Mining/Quarrying/Energy/Oil/Chemical	3.1
Services (Community/Professional...)	3.0
Public Administration: public service	2.6
Tourism/Hospitality/Clothing/Food & Bev...	2.5
Technology (ICT/Telecom/Electronics)	3.3
Other	2.4

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

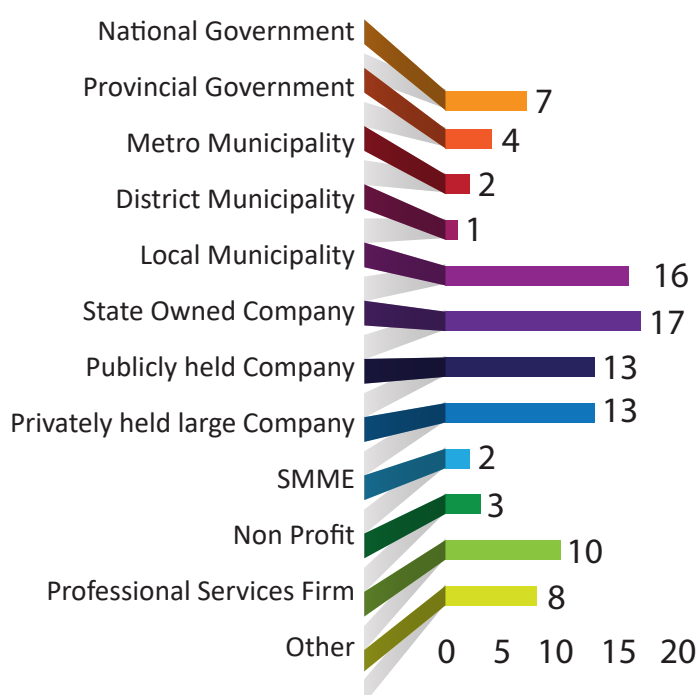


Figure 2: Economic sectors respondents (%)

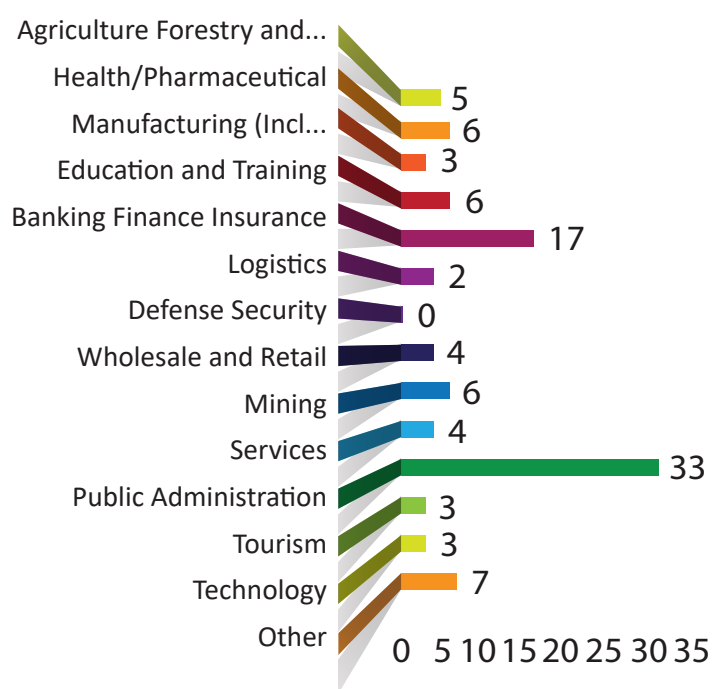


Figure 3: Industry sectors respondents (%)

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

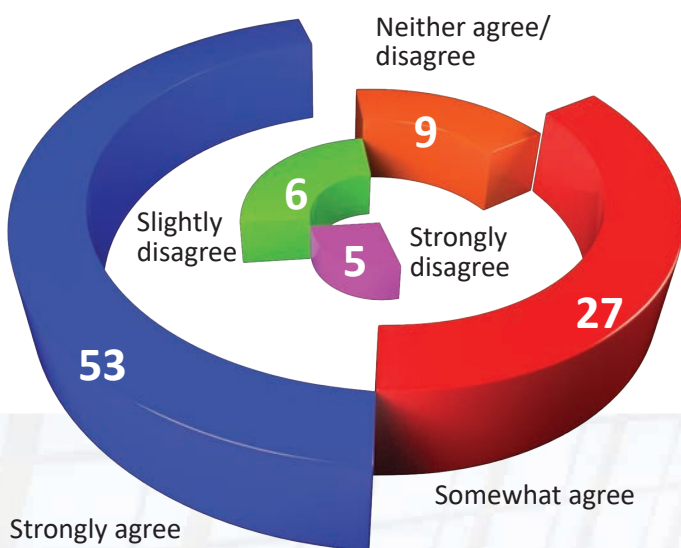
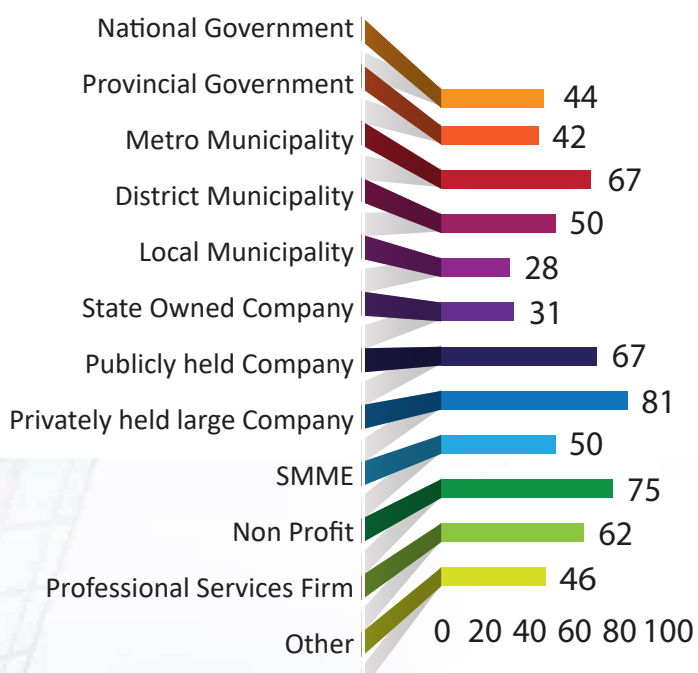


Figure 5: Respondents who strongly agree (% per sector)



The Ethics dimension has always enjoyed a good 3 out of 4 point rating for good Corporate Governance, however for the past two years this rating has declined in 2018 to 2.8. In 2020 Ethics scored a 2.9 out of 4.

Ethical values and culture in organisations has taken a knock in confidence especially given the economic climate over the past two years with constant media exposure of corruption, fraud and unethical leadership behaviours. We see the negative influence and ripple effect it has on organisations reputations, trust ratings, stakeholder perceptions and ultimate bottom line effect to the business. The 2020 global Covid-19 pandemic has certainly exposed even more corruption as organisations and government struggled to cope with this most significant disruption. One that will have its effects last for a number of years to come. The lack of fair, honest, accountable leadership was certainly exposed during the disruption and unfortunately the effects and costs of this negative attributes has impacted on the most vulnerable in the country. We cannot emphasise enough on keeping a robust ethical risk register, developing a code of ethics and managing effective ethical controls within the organisation.

We have seen an increase in rating from chief audit executives when asked if ethics is an important part of organisational culture where in 2018 48% strongly agreed but was rated 53% in 2020. In the recent Anti-intimidation and Ethical Practices ethics survey, less than 50% of professionals strongly agreed that they are encouraged, in their organisations to report on

unethical behaviour. Only 36% agreed that the code of ethics is used to guide behaviour. Of the professionals that responded to the ethics survey, in the fields of risk management, auditing, accounting, law, fraud examination and compliance, only 42% strongly agreed that in their organisations people are encouraged to do the right thing always.

Negative reputational damage has recently incited boycotts and stay away rallies from entities who do not follow ethical controls as we seen with the Clicks group in 2020. This proves that "Doing the Right Thing" is more important than financial success. It will do professionals, as guardians of governance in organisations, good to heed to some of the Ethical Principles identified as follows:

- To be autonomous, skeptical and critical in your decision making
- To keep your word through fidelity, integrity and honesty.
- To treat all with justice, fairness and equality and not put one client above the other.
- To follow compliance and regulations when it comes to ethical practices
- To create awareness and implement ethical controls.



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

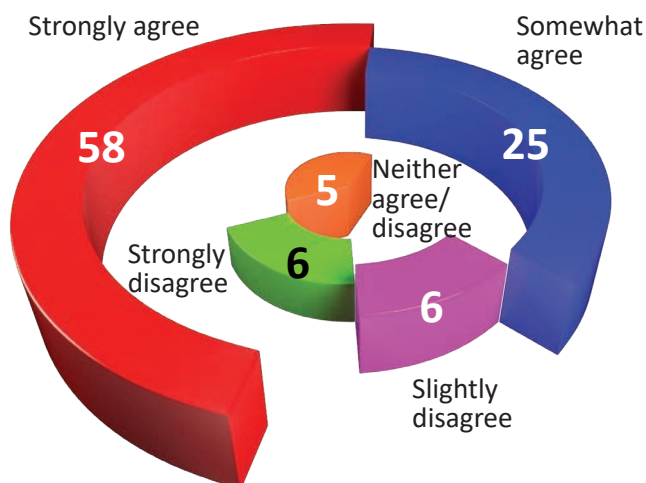
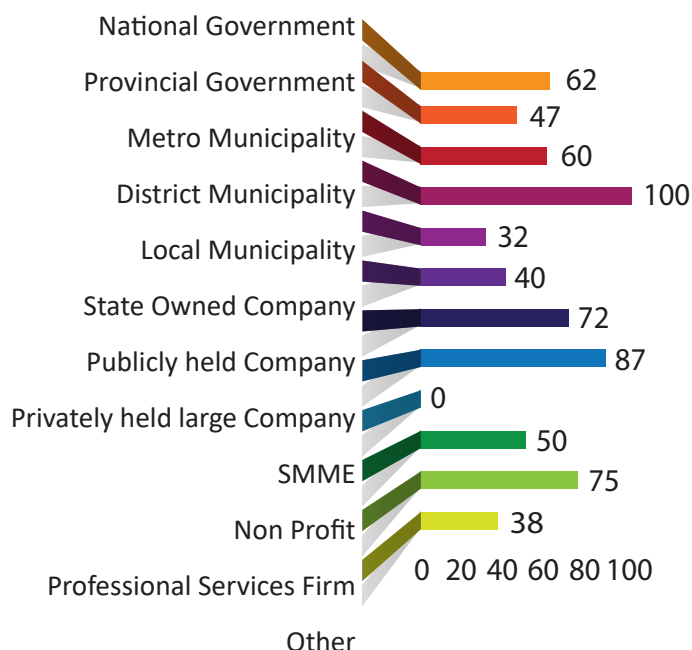


Figure 7: Respondents who strongly agree (% per sector)



The Compliance dimension has consistently scored a 3 out of 4 point rating for good Corporate Governance for the past eight years. This has proven that chief audit executives are pleased with the way organisations follow the laws and regulations when it comes to practising good corporate governance. When asked if the oversight body ensures continual monitoring of the regulatory environment and compliance with relevant legislation regulation standards, over the past four years, over 50% of the chief audit executives have strongly agreed that the practice has been adhered to in South African organisations.

While we have seen strict regulation measures being introduced into organisations in 2020, when it came to Covid-19, most organisations have applied these regulations and complied with all laws to avoid penalties as non-compliance can lead to investigations and litigations. Even though lockdown regulations may have eased off but there are regulations in place for workplace operations. In this disruptive year we have witnessed many new standards, regulations and laws that have been introduced for organisations to operate effectively in a way that makes business sense. One practise that seems to have worked for most organisations is collaboration and an integrated thinking approach which minimises costs and effectively controls risks against operational needs.

The Beiersdorf group of companies, a German global skin care company with more than 150 affiliates and over 16,500 employees worldwide, has a trusted and respected brand with high quality

standards. They have set out that responsibility also means acting lawfully. To them compliance is key across the various global markets in which they trade which means adhering to laws and internal guidelines which is part and parcel of a corporate culture. Their company governance board has compiled the following Compliance Principles:

- Adhering to regulations and standards which is the responsibility of management to ensure and enforce a compliance management system.
- Compliance is an indispensable foundation of trust of all stakeholders of the business and a basis for sustainable growth.
- To actively engage in competition in accordance with applicable laws.
- A zero tolerance view when it comes to infringements of the law.
- Employees are obliged to comply with regulations and standards.
- A compliance corporate culture is set out throughout the business with all stakeholders involved.
- Transparency and open communication is key to maintaining compliance.

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

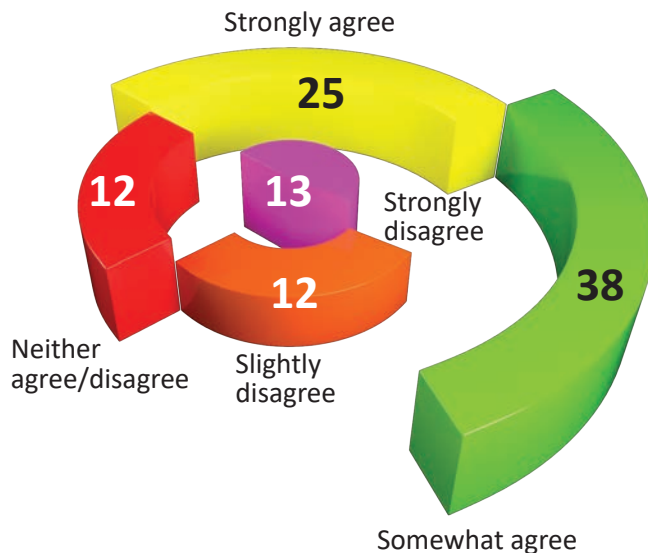
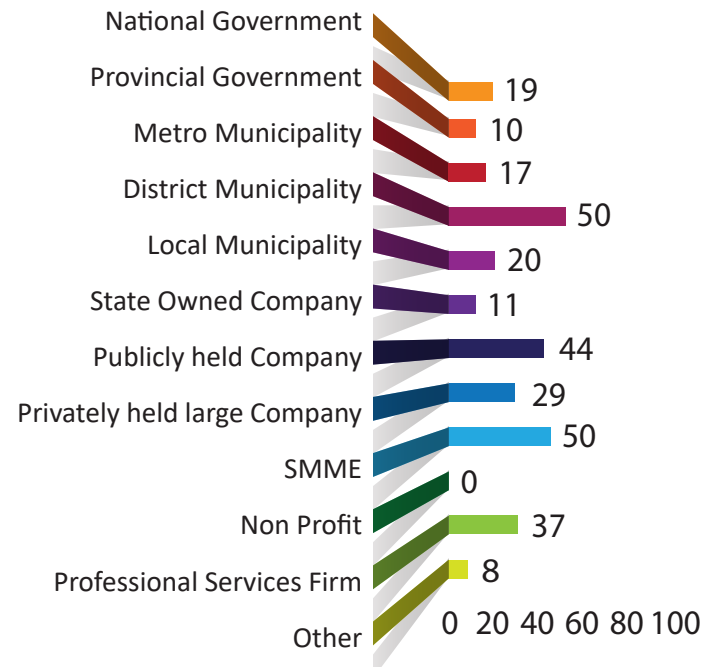


Figure 9: Respondents who strongly agree (% per sector)



The Leadership dimension, as with the Compliance dimension has enjoyed a consistent score of 3 out of 4 points for good Corporate Governance for the past eight years. However this is an area that has room for improvement. When asked if the leadership is familiar with and utilises all the integrated reporting principles in the organisations value creation process, less than 30% of the chief audit executives have strongly agreed for the past four years.

According to the International Integrated Reporting Council (IIRC), integrated reporting is a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time. The integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. This integrated approach was introduced in the United Kingdom to the rest of the world since 2009 and is still fairly a new policy and practise to many organisations and their leadership.

Leaders are ideally placed to drive integration principles throughout the organisation with the purpose to create value over time.

Anush Kostanyan, a Leadership and Training professional, identified 10 Principles of Effective and Authentic Leadership in an article published by the Huffington Post publication in 2014 which was updated in 2017, which is still relevant for leaders today, as follows:

- Leadership is a behaviour and not a position
- The best way to influence is setting an example
- Leading means making an impact
- Leadership is chasing a vision and not just money
- Action speaks louder than words
- Flexibility may refer to behaviour, not values
- Leadership is all about people
- It is fine to admit to mistakes
- Unity is strength
- There is always room for growth.

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 (%)

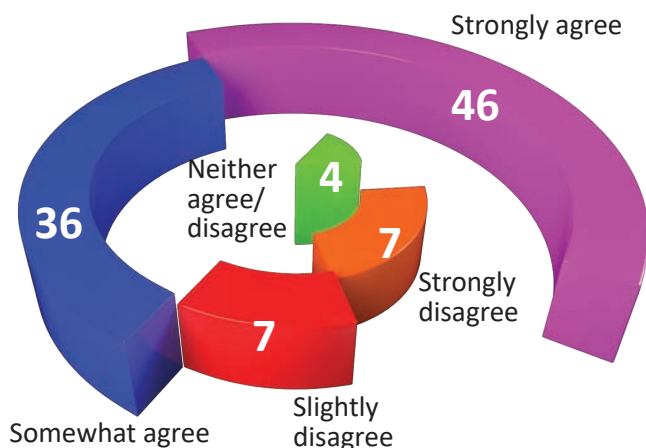
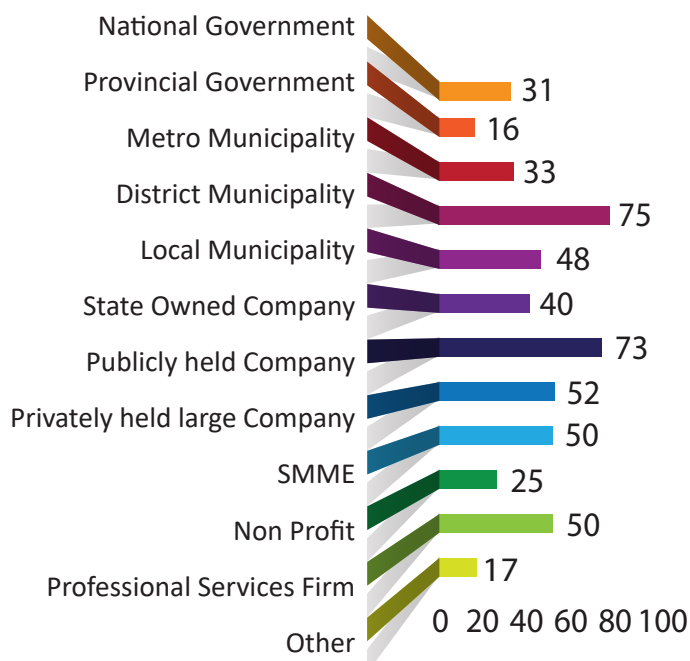


Figure 11: Respondents who strongly agree (% per sector)



The Operational Risk dimension scored a 2.9 points out of 4 for good Corporate Governance in 2020 which is a slight decrease from the 3 out of 4 in 2019. The perception from most chief audit executives are that organisations are doing what is expected when it comes to managing Operational Risk. However this is another governance dimension that has the potential to improve significantly for more effective operational management. On the statement of the process of identifying and managing risks is adequate and aligned to your organisations strategic objectives, we have seen a significant shift in opinion from the chief audit executives where in 2018 40% strongly agreed, in 2019 it dropped to 36% but increased to an all-time highest rating of 46% strongly agreeing in 2020. This is a very positive indication that leadership in organisations is starting to prioritise effective risk management.

We have seen technology play a major part in detecting risks, mitigating against risks and implementing control measures to ensure operational objectives are met such as advanced analytics, digital reasoning, machine learning and natural language processing that improve fraud detection audits, anti-money laundering protocols and telematics to better measure consumer risk.

In 2020 the Institute of Risk Management identified these top 12 risks in South Africa based on research over the past five years as well as looking towards the future:

- Sparseness of unified ethical and visionary leadership
- Continuing private public governance failures
- Failure to root out deeply entrenched corruption
- Changes in legislation and regulation
- Ill-conceived NHI Policy and for sub optimal implementation
- Ill-conceived land reform policy and/ or sub optimal implementation
- Failure to develop, attract and/or retain talent
- Extreme weather events, natural disasters and climate change
- Insufficient electricity and/or energy
- Disruptive technologies
- Cyber-attacks, data fraud and data theft
- Failure/delay and/or sub optimal implementation of economic reform initiatives.

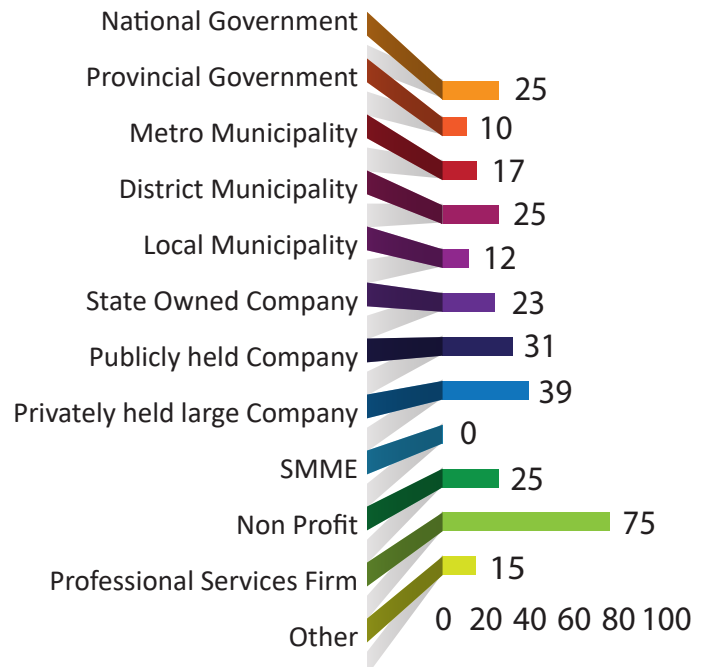
EXTERNAL RISK

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)



The External Risk dimension has scored 2.6 out of 4 points for good Corporate Governance in 2020. External Risk has been one of the lowest rated governance dimensions as it scored a 2.1 in 2014 going up to a 2.8 in 2017. We cannot emphasise enough that organisations need to be wary of the external environment in which it operates as this impacts directly on operational management as external risks may be calculable but they are generally outside the control of the organisation and are difficult to predict. In 2020 where we have witnessed a phenomenal disruption with the Covid-19 global pandemic. Organisations had to downsize, restructure and some had to close up shop as we seen in the case of the Edcon Group, a company that has traded in South Africa for more than 80 years. Factors such as bankruptcy, economic upheaval, wars, crime, natural disasters and other events may directly impact on an organisations operations.

Examples of external risks include:

- Interest rates
- Volatility
- Convexity

- Time-dependent
- Competitor
- Customer demand
- Exposure
- Shareholder
- Political
- Legislative

According to the South African National Treasury, they have outlined the following as key in developing an organisational risk management policy guided by a strategy:

- a plan of action to improve the Institution's risk management maturity;
- a focus on the prevention of fraud and corruption;
- the Institution's risk management architecture and reporting lines;
- a description of the risk management modality
- user guidelines; and
- details of review and assurance of the risk management process.

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

Figure 14: Breakdown of various responses

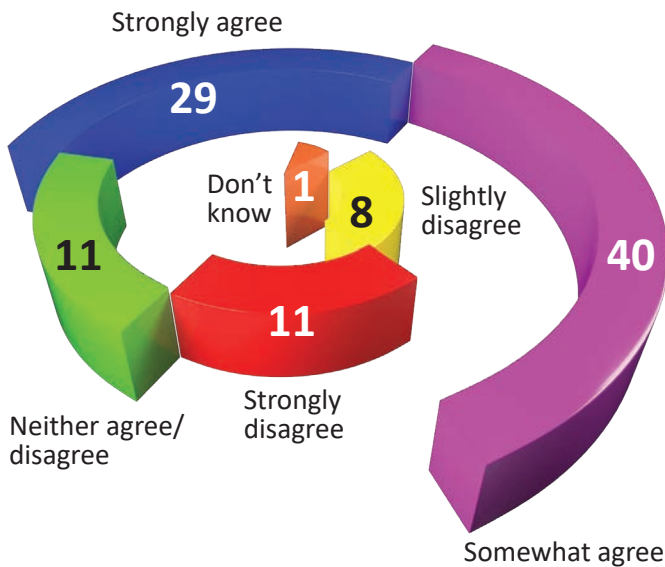
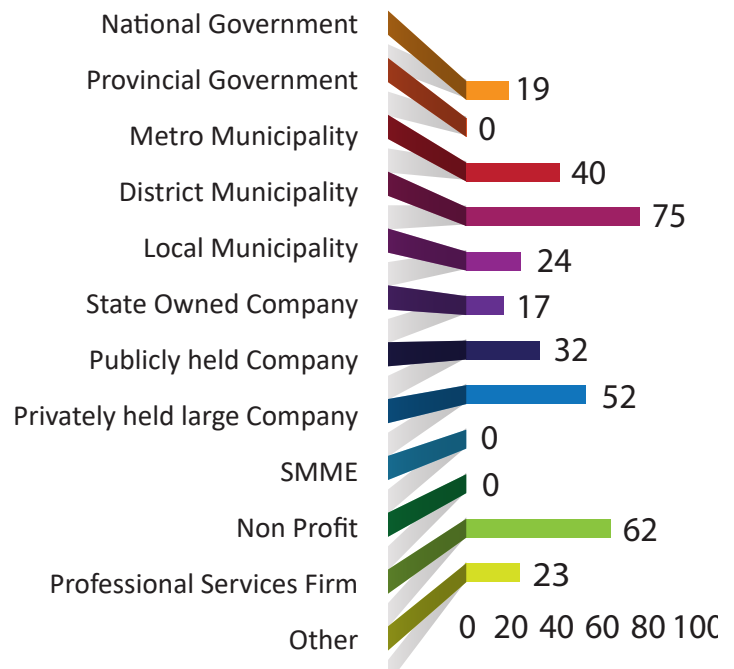


Figure 15: Respondents who strongly agree (% per sector)



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**LEADERSHIP
ACADEMY**
for Guardians of Governance

The Performance dimension has scored a 2.7 out of 4 point rating for good Corporate Governance in 2020. This dimension has scored higher than the 2.8 rating in 2017. On the question of the information, communication and technology strategy is aligned to the strategic objectives of your organisation, not more than 35% of chief audit executives have strongly agreed in 2017 and in 2020 only 29% strongly agreed. In an age where technology is crucial to the success of an organisations operations, leaders must have a vision of how to utilise technology and begin to put in place the necessary policies, strategies and financial planning for an increase in technology and communications usage, in order to advance and evolve their operations.

The advancements in auditing technology is both exciting and scary at the same time to some but we have to acknowledge that is transforming how organisations are doing business. We have seen this in 2020 with the onset of Covid-19 that has dramatically changed the way of work and operations for most organisations. Data Analytics is a science in the auditing sector that has grown significantly in usage as it enables auditors to move

from small sample to large data set auditing which gives auditors the added advantage into insights of risk and fraud detection and management.

There is also the use of Artificial Intelligence, a cognitive technology, where logic algorithms and statistical variances are forging a new way in which data is analysed and assessed based on reason. This is also known as machine learning where problems can be solved as it is encountered or as it occurs, within a very short time period.

Another new technological advancement is the use of robotic process automation for the generation of audit ready work papers and drones to conduct assessments, gather data and intelligence for assurance processes in remote locations.

These new technology advancements can only benefit Internal Auditors in order to make better, more informed assurance decisions based on the information and evidence gathered from the technology tools.

The ELN has been developed to assist Chief Audit Executives (CAEs) to achieve their goals and support their efforts in their capacity as pioneers in their organisations. The ELN is an exclusive platform for CAEs where tools, resources, information and topic discussions are at their fingertips. As leaders of the Internal Audit profession, CAEs are provided with an exclusive service to "remain on top of the game."

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Contact:
Ischtelle Hechter, Department Head: ELN,

Email:
Ischtelle@iiasa.org.za



**EXECUTIVE
LEADERSHIP NETWORK**
Resource Center for Chief Audit Executives

PERFORMANCE

HUMAN CAPITAL

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

Figure 16: Breakdown of responses

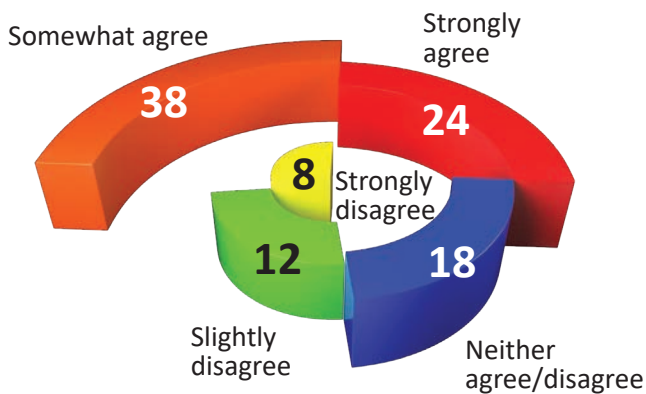
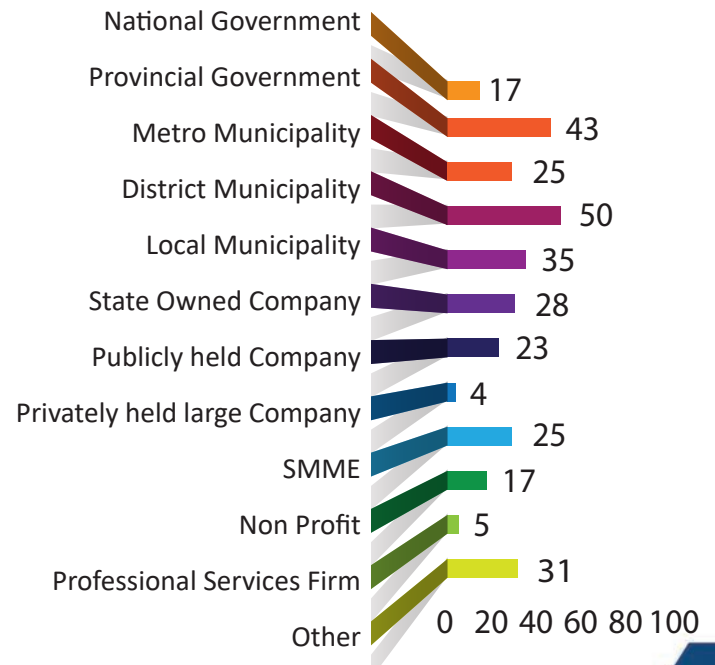


Figure 17: Respondents who strongly agree (% per sector)



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 (%)

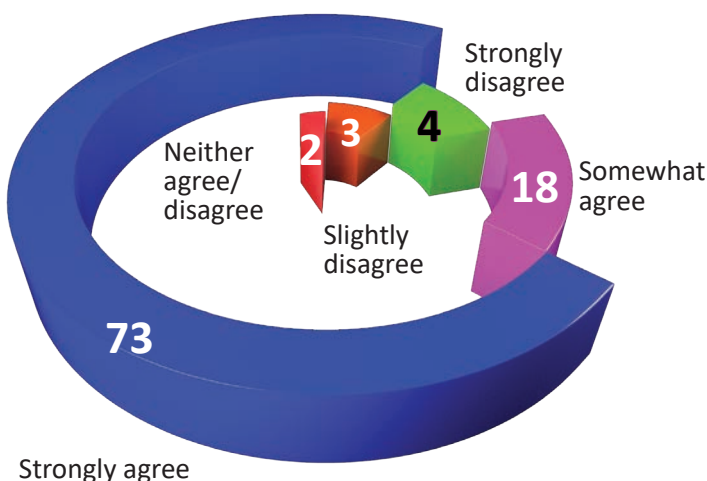
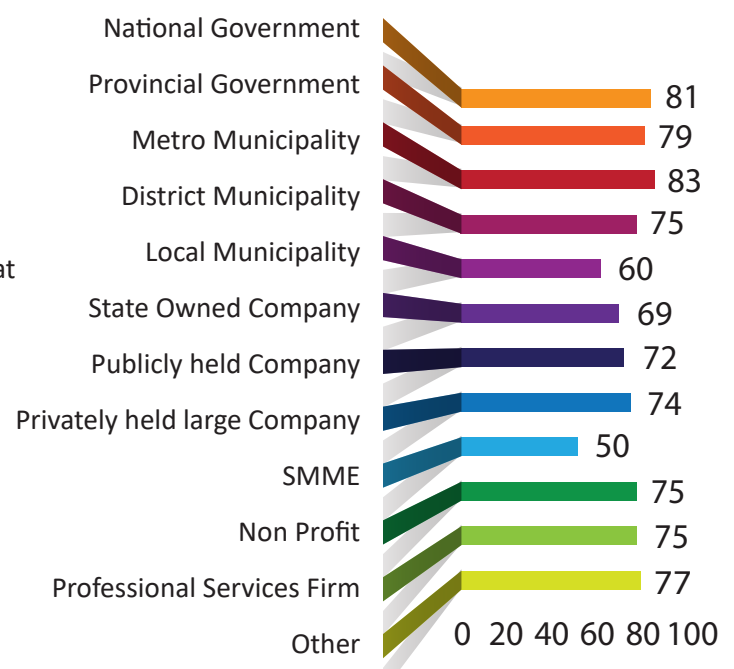


Figure 19: Respondents who strongly agree (% per sector)



HUMAN CAPITAL

On the question of your organisation has suitable human resource capital to execute its strategy effectively and optimally it was rated a constant average 25% strongly agreed by chief audit executives over the last eight reports. This is an area that needs to improve drastically and address the skills shortage challenge that South Africa faces if we are going to be a country that competes in the global arena. On the question of whether your organisation has suitable human resource capital to execute its strategy effectively and optimally, less than 30% of chief audit executives have strongly agreed in the past 5 years.

Education and skills development are an essential part of a growing economy and our education system has always been in the spotlight when it comes to the skills shortage debate. Higher education is still mainly earmarked for those who can afford it, while the majority South African citizens who cannot afford it, is missing out on a crucial part of their development journey. In 2020 there has been a major set-back to an already fragile industry sector with the onset of the Covid-19 global pandemic. Organisations face the challenges of a workforce that is not future fit and the war on talent has taken its toll in many economic sectors.

According to the Society of Industrial and Organisational Psychology of South Africa 2019 critical skills survey, unemployment continues its upward trajectory which in turn,

increases pressure on finding critical skills. The research indicated that several sectors in the economy are experiencing critical skill shortages including information and technology, engineering, finance and health as the sectors experiencing the most pressure.

According to the World Health Organisation (WHO), South Africa has an average of one doctor and one nurse per 1,000 patients. Hospitals are crowded, but understaffed, as shortages of skilled professionals in this sector continue to be an issue.

The SIOPSA research indicated the following as critical skills needed in South Africa:

- IT specialists
- Engineers
- Artisans
- Senior Financial Executives
- Health care workers
- Executive Management
- Specialists
- Academics
- Mining executives
- Risk Managers
- Foreign language speakers.

ASSURANCE

INTERNAL AUDIT

The Assurance dimension started out in 2013 with a high score of 3.5 out of 4 points for good Corporate Governance however this has decreased in the last three years and in 2020 it was rated at 2.8. On the question of within your organisation Internal Audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference, over 70% of the chief audit executives have strongly agreed over the last 5 years. We find this very heartening given the current economic climate and reports of corruption in South Africa.

We agree that Internal Audit is responsible for independent, objective assurance in the various organisation divisions including risk management, compliance, governance and financial reporting, reporting on findings as well as making recommendations in terms of setting controls in place where they are lacking. However, the profession is constantly evolving with the introduction of new technologies being introduced and moving traditional approaches by looking at ways to add more value into organisations through highly developed skills of data analysis, process improvements, risk assessments and preventative control analysis.

At the 2020 IIA SA National online Conference the IIA Global President and CEO, Mr Richard Chambers, reiterated that Internal Auditors needs to improve and enhance on relevance in organisations in terms of how services are provided in audit and risk assessments. He further stated that there will be an increase demand to add greater value as scandals arise, technology advances and the need for innovative auditing in a disruptive economy.

In an article recently written by Hal Garyn (MD and owner for Audit Executive Advisory Services based in Florida USA) for Internal Audit 360, he lists the following actions for Internal Auditors to consider:

- Look at internal audit from the outside in, not the inside out: Focus on what the organization really wants from internal audit, not just what we believe we should provide.
- Request for, and act on, critical feedback.
- Do what is essential, for at least a little while longer
- Consider and prioritize the work that is absolutely necessary, even if it is outside the typical internal audit work, and leave the work that doesn't address the immediate problems for another time.
- Increase time spent on value-add advisory work, possibly deferring some assurance work: The organization needs help in times of crisis, not necessarily another assurance project.
- Volunteer to help: Determine how you can help and figure out how to do it. The four words every internal audit leader should be asking senior executives is: "How can I help?"
- Be more flexible with risks to objectivity: While objectivity is fundamental to internal audit, in times of crisis, what the organization needs should potentially take precedence over preserving objectivity.
- Move to a near-continuous risk assessment: Risk is dynamic, not static.



MAIN FINDINGS

Our key research findings are:

1. The **Country index** has dropped slightly to **2.9**. 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 rating has consistently been positive over the last eight CGI reports. This is particularly encouraging for organisations in South Africa and their stakeholders to note as compliance and regulations occurs within governance reporting.
3. The **Ethics** dimension has remained a steady **2.9** rating. Over the last eight years this dimension has decreased significantly in rating perceptions which matches the overall, country wide sentiment on unethical behaviour and corruption experienced in the country.
4. Another steady rating has been the **Assurance** dimension scoring **2.8** for the past two years. Although the rating has dropped in the last reports, it has rated better this year with CAE's strongly agreeing that Internal Audit function within organisations in SA, is experiencing a degree of relevant independence and support by the leadership at the top.
5. The rating for **Operational Risk** has slightly decreased to **2.9** but should not be a discouragement in Governance reporting as most Chief Internal Auditors have strongly agreed that organisations in South Africa is proactively making progress in efforts to identify and manage operational risks.
6. **External Risk** is an area that has not scored well over the years. The 2020 rating is **2.6**. It would do organisations well to adopt a more proactive approach when developing an external risk register including identifying and planning for external risks. We have experienced this particularly in 2020 with the Covid-19 global pandemic.
7. The **Performance** dimension rated **2.7**. This dimension has not been rated highly over the years. Organisations need to review their optimal utilisation of the six capitals of integrated reporting. (manufactured, financial, human, natural, intellectual and relationship).

THE WAY FORWARD

2020 has been a black swan year for most in terms of the unforeseen and unpredictable disruption of the Covid-19 global pandemic. The way we live, work and socialise has all but changed. Interpersonal relationships with stakeholders remains the key to the audit function even though the challenge is that we need to maintain these relationships on a more digital platform rather than in an office situation. We emphasise a pressing need in South Africa to initiate dialogue and encourage discussion on ways to improve corporate governance in organisations as it will lead to new innovations, increased productivity and a shift in value add. The Corporate Governance Index Report remains a tool for organisations to benchmark against other industry and economic sectors. It also gives insights into governance ratings in a chronological sequence. It gives insightful up to date information as it unpacks the understanding of the various governance dimensions and it will continue to do so going forward.

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

ETHICS

Questions

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.

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
-------------------	-------------------	------------------------	----------------	----------------	------------

5	4	5	18	67	1
---	---	---	----	----	---

Ethics is an important part of your organisational culture.

5	6	8	27	53	1
---	---	---	----	----	---

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	9	7	22	35	2
----	---	---	----	----	---

Your oversight / governing body ensures that there are measures in place that enable the organisation to remunerate fairly, responsibly and transparently.

9	8	6	27	50	0
---	---	---	----	----	---

COMPLIANCE

Questions

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

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
-------------------	-------------------	------------------------	----------------	----------------	------------

10	10	8	33	39	0
----	----	---	----	----	---

Your oversight / governing body ensures continual monitoring of the regulatory environment and compliance with relevant legislation, regulation and standards

6	4	7	25	58	0
---	---	---	----	----	---

LEADERSHIP

Questions

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

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
-------------------	-------------------	------------------------	----------------	----------------	------------

8	5	11	25	51	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

5	5	8	27	54	1
---	---	---	----	----	---

The composition, roles and responsibilities of your oversight / governing body and its committees are appropriate with minimal overlap and fragmentation of duties

4	7	4	28	57	0
---	---	---	----	----	---

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

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	8	5	5	37	43	2
There is a balanced distribution of power among your organisation's oversight committees	7	5	8	38	41	1
Your audit committee is effective in all the dimensions within the ambit of its responsibilities	4	5	3	25	61	2
The leadership ensures that integrated thinking is integral in the structures and processes that the organisation utilises in delivering on its strategy	8	11	16	41	23	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	7	8	6	42	37	0
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	9	6	8	33	43	1
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	10	7	8	30	43	2
Your oversight / governing body ensures accountability of organisational performance through accurate reporting and disclosure to the organisation's stakeholders	6	3	4	33	54	0
The Information Communication Technology (ITC) strategy is aligned to the strategic objectives of your organisation	11	8	11	39	29	2
Your organisation has suitable human resource capital to execute its strategy effectively and optimally	8	18	12	38	22	2
Your organisation's human resource capital is optimally utilised	13	19	12	41	14	1
Your organisation utilises its financial capital optimally (i.e. managing finances) so as to achieve the best possible sustainable outcomes	8	10	12	36	34	0
Given its current resources your organisation's output / delivery is at optimal level	13	10	10	44	23	0
The leadership ensures that integrated thinking is integral in the structures and processes that the organisation utilises in delivering on its strategy	14	12	12	38	24	0

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

OPERATIONAL RISK

Questions

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

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
7	5	4	39	45	0

The leadership gives adequate attention to the opportunities, risks and disruptions associated with advances in technology and information

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
10	10	10	37	33	0

EXTERNAL RISK

Questions

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

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
9	9	14	41	26	1

ASSURANCE

Questions

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.)

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
7	10	6	35	42	0

Your organisation uses a combined assurance framework to provide a coordinated approach to assurance activities

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
12	10	11	41	26	0

Within your organisation, internal audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
4	3	2	18	73	0

Within your organisation, internal audit has adequate resources to enable it to execute its duties effectively

Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
20	11	7	31	30	1

ACKNOWLEDGEMENTS



Laverne Leibrandt - Head of Policy
(responsible for the development and publishing of the annual CGI report)
0833575969
Laverne@iiasa.org.za

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- The annual IIA SA Corporate Governance Index report is developed and compiled by the Policy Department Head, Laverne Leibrandt.
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