

CGI
2022



The Institute of
Internal Auditors
South Africa



CORPORATE GOVERNANCE INDEX
2022



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FOREWORD



It is my pleasure to present the 9th edition of the Institute of Internal Auditors Corporate Governance Index report. It feels like just the other day that we launched our very first edition in 2013 of the report on the state of governance in SA, as perceived by our Chief Audit Executives, across various economic and industry sectors in the country. I believe that the credibility and importance of the CGI lies in the fact that it can be viewed as a barometer to measure the state of governance in organisations by rating seven governance dimensions. (Ethics, Compliance, Leadership, Performance, Operational Risk, External Risk and Assurance).

In 2020 we decided to develop the CGI report on a biennial basis instead of annually as this would give us the added advantage to review the comparative findings on the data collated every two years. As it has been two years ago that the world was disrupted with the Covid-19 global pandemic and so much has changed, from a governance point of view, particularly in the world of work. Our country index rating for corporate governance gained a slight improvement from 2.8 out of 4 in 2020 to 2.9 and we are encouraged by the progress of many economic sector organisations on the improvements in all dimensions of governance. Our ratings in governance for organisations across economic sectors in South Africa is remarkably aiming to reach a 3 out of 4 for corporate governance. The global digitalisation movement enforced new regulations, standards and laws that were introduced, the way we work in terms of work from home or hybrid policies were discharged, almost immediately, to name a few of the significant changes. These changes were either interpreted as threats, with an increase in unethical practices, online crime, many enterprises closing shop and an increase in unemployment or was viewed as an opportunity to innovate and embrace technological advances.

I am pleased to note that in the past two years our overall view on Corporate Governance has improved and organisations are indeed focusing efforts to improve on corporate governance ratings as part of their key strategic priority objectives. We have added questions to our survey that incorporates unethical behaviour, corruption and the protection of whistleblowers. These issues are a key focal point in line with the current governance environment of volatility, uncertainty, complexity and ambiguity that organisations are experiencing and exposed to and as a professional body we hold our members accountable

as guardians of governance in the Internal Audit profession. We note and are pleased with the improved results in the Agriculture, Defence, Mining, Wholesale and Retail sectors. These sectors have improved governance ratings in ethics, leadership, risk and performance in 2022 where in previous years have been rating much lower.

I believe our chief audit executives, who participated in this survey, are indeed best placed to provide a wholistic view on the state of governance in the country as they have an independent finger on the pulse of organisations and an active role in promoting good governance principles which in turns leads to the improvement of productivity and performance. The intention of the corporate governance index report is to measure governance across industry and economic sectors in SA and we encourage you to utilise this tool to initiate discussions in your organisation on the various improvements needed in governance dimensions to further enhance your rating and strive to become a reputable, ethical organisation and outstanding business performance.

Julius Mojapelo
Chief Executive Officer
The Institute of Internal Auditors South Africa
November 2022

THE INSTITUTE OF INTERNAL AUDITORS AT A QUICK 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 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 2022 IIA SA's Corporate Governance Index, reflects the views of two hundred and nine (209) Chief Audit Executives (CAE's). This is an increase in respondents from the 190 CAE's that responded in 2020 but still less than the 217 that responded to the first survey back in 2013. 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 bi-annual edition is the ninth publication and was developed with the assistance through research technology 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 2022 research study indicated the following:

1. The overall country CGI score for 2022 is **2.9**. This is a slight increase from the 2.8 rating in 2020. 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 **58%**. There was decrease in response from the **Private Sector** from **40% in 2020 to 35% in 2022**. Respondents from Other sectors made up the 7%.
3. Less than **35% Strongly Agreed** responses:
 - a. Your organisation has suitable human resource capital to execute its strategy effectively and optimally was 29.6% in 2022 which has increased from the 22.5% rating in 2020 and the 27.5% rating in 2019. Over the past two years organisations have made steady progress in building effective human resource capital.
 - b. The leadership is familiar with and utilises all the Integrated Reporting principles in the organisations value creation process was rated 26.9% in 2022. This is an increase to the rating of 23.9% in 2020 and 24.6% in 2019. We note the concerted effort that leadership has made in terms of executing on integrated governance in organisations.
 - c. The leadership gives adequate attention to the opportunities, risks and disruptions associated with advances in technology and information was rated 30.5% in 2022 which is a decrease in the 2020 rating of 33.1% but higher than the rating of 27.4% in 2019. This is an area that leadership should focus more attention on as technology is constantly advancing and this invites an increase in risks that are associated with technology advancements.
4. More than **50% Strongly Agreed** responses:
 - a. The Oversight body (such as the Board), sets a clear tone of zero tolerance toward unethical behaviour, including fraud and corruption in your organisation was rated 63.3% in 2022 which has seen a decrease in rating in comparison to the 67.3% rated in 2020 but still slightly higher than the 62.5% rating in 2019. We encourage organisations to continue setting this tone as we build towards strengthening economic growth in South Africa.
 - b. Your organisation has a process in place to report on unethical practices and behaviour in a safe and responsible manner for potential whistleblowers was rated 65.1% in 2022. As a first-time question to respondents, we are encouraged by organisations, in South Africa, across economic sectors, encourage the reporting of unethical practices and we are hopeful that this rating will increase going forward.
 - c. Internal audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference showed a rating of 77.2% in 2022. This is the highest rating for this statement since the inception of the IIA SA Corporate Governance Index. It has significantly increased in the past three years as it was rated 72.8% in 2020 and 69.9% in 2019, which is very encouraging for the growth and recognition of the profession.
5. The top 3 emerging risks identified by the Chief Audit Executives that Organisations should be aware of are:
 - a. Cyber security
 - b. Political Interference
 - c. Fraud
6. The top 3 emerging risks the Internal Audit profession should be aware of are:
 - a. Management (Crisis, resistance, pressure, Lack, ineffective)
 - b. Technology
 - c. Digitalisation
7. The top emerging risks the IIA SA should be aware of to ensure the sustainability of the Internal Audit profession are:
 - a. Advocacy
 - b. Seek Legislation Protection of Whistleblowers.
 - c. Easy accessibility to CIA designation and cost reduction for the designation.



TABLE 1

SUMMARY OF THE MOST NOTABLE INSIGHTS PER SECTOR

Sector	2020 Index	2022 Index	Notable insights on “strongly agreed” scoring	Percentage of CAEs who strongly agreed with statement	
				2020 Internal Audit has a sufficient degree of independence	2022 Internal Audit has a sufficient degree of independence
National Government	2.8	2.7	On the statement that members of the members of the oversight body are adequately diverse and skilled and act with independence of mind, national government rated it 62% strongly agreed. This rating has decreased since 2020 from 69%. It cannot be emphasised enough that the governing body of organisations are skilled and act independently to the organisation in their execution of their duties.	81%	81%
Provincial Government	2.6	2.8	On the statement that Internal Audit has a sufficient degree of independence, Provincial Government chief audit executives rated it 88%. This is an increase in rating from 2020 when it was rated 79% strongly agreed. It is encouraging to note that Internal Audit is operating effectively in the Provincial Government sector.	78%	88%
Municipal (Metro)	2.8	2.1	Metropolitan municipalities CAE's rated the statement, the organisation utilises its financial capital optimally to achieve the best possible sustainable outcomes, 40%. This an increase from the 33% rating in 2020. It is a positive indication that metropolitan municipalities are increasing efforts to enhance good financial governance efforts.	83%	40%
Municipal (District)	3.1	2.8	District municipality has rated the statement the governing body has adopted a stakeholder inclusive approach that considers the impact of its decisions and balances the needs and interests of its stakeholders a 75%. This rating has increased significantly from the 50% rating in 2020. We are encouraged that in the district municipalities stakeholders are a key component of good governance practices.	75%	50%
Municipal (Local)	2.6	2.4	Local municipality CAE's rated the statement leadership and oversight committees display a good understanding of the varying roles of assurance providers 39% strongly agreed. This rating has increased since the 24% in 2020. We are encouraged that there is a fair understanding of combined assurance in local municipalities.	60%	68%
State owned company	2.5	2.9	On the statement that the organisation has processes in place to report on unethical practices and behaviour in a safe and responsible manner for potential whistleblowers, SOE's rated it 69% strongly agreed. State Owned Entities have come under scrutiny recently for unethical practices and we are encouraged that there have been improvements in this area to mitigate against corruption.	69%	83%
Publicly held company	3.3	3.6	The publicly held company sector rated the statement, the composition, roles and responsibilities of the governing bodies are appropriate with minimal overlap and fragmentation of duties, 87% strongly agreed. This was rated 50% in 2020. The increase in the confidence that listed companies have in their boards is very encouraging.	71%	93%
Privately held large company	3.3	3.4	On the statement, the oversight body sets a clear tone of zero tolerance on unethical behaviour, including fraud and corruption in your organisation the rating was 87% for publicly held large companies. Which is encouraging that large, listed companies have taken the stance against corruption and rather opt to conduct business ethically.	74%	79%
SMME	2.5	3.0	The SMME sector rated the statement, the governing body provides clear strategic direction with the focus on long term sustainability rather than short term thinking, 66%. This rating has decreased since 2020 when it was rated 100% strongly agreed. The SMME sector is an important role player in building an economy and good governance practices should be always encouraged.	50%	67%
Non-profit company	3.1	2.7	The NPO sector has rated the statement that Ethics is an important part of the organisational culture 75%. This rating has not changed in the past two years and is a positive indication that an ethical culture is maintained with all stakeholders, when conducting day to day business.	75%	50%
Professional services firm	3.1	2.8	On the statement of the organisation goes beyond a tick box exercise to ensure a deep understanding of and commitment to implementing the principles and philosophy of good governance the rating was 64%. This is a slight increase from 2020 when it was rated 62%. Firms are demonstrating a marked improvement in practicing good governance principles.	75%	55%
Other	2.6	2.8	The 'other' group rated the statement that there is a balanced distribution of power among the organisations oversight committees, was 69% strongly agreed. This rating has increased from the 31% in 2020.	76%	77%

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 questions. 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 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 to capture numeral data effectively and efficiently. 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 1 February to 30 June 2022. A total of two hundred and nine (209) 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 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 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 2: Index Scores

Dimension	2020	2022	% Change
Ethics	2.9	3.0	3.3%
Compliance	3.0	3.0	0%
Leadership	3.0	3.0	0%
Operational Risk	2.9	2.9	0%
Assurance	2.8	2.9	3.4%
Performance	2.7	2.9	6,8%
External Risk	2.6	2.7	3,7%
COUNTRY CGI	2.8	2.9	3.4%

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.

The overall Country Index marginally increased by 3.4% from 2.9, which had remained the same from 2014 to 2016, to a 3.0 in 2017. This does however remain below the 3.2 score attained in the first survey conducted in 2013. The Index indicates that there have been increases in four dimensions, decreases in two and one that has remained unchanged.

The External Risk dimension has seen the biggest improvement as perceived by the CAE's, with a 33.3% increase in one year and the second highest increase is the Performance dimension with a 7.7% increase in rating. Both the Ethics and Assurance dimensions have decreased in rating which is a concern in terms of governance practices in organisations in South Africa. Notable is that the Ethics dimension has been losing some ground since 2015 and is now at its lowest level since the inception of the Index.

The previous versions of the IIASA Corporate Governance Index (2013-2016) is available on the IIASA website (www.iiasa.org.za) for comparison purposes.

OVERALL RESULTS

Table 3: Index per Economic sector

Sector	Index
National Government	2.7
Provincial Government	2.8
Municipal (Metro)	2.1
Municipal (District)	2.8
Municipal (Local)	2.4
State owned company	2.9
Publicly held company	3.6
Privately held large company	3.4
SMME	3.0
Non-profit company	2.7
Professional services firm	2.8
Other	2.8

Scale: 0 (lowest) to 4 (highest)

Table 4: Index per Industry sector

Sector	Index
Agriculture/Forestry/Fishing	3.3
Health/Pharmaceuticals	3.2
Manufacturing (incl. Packaging & Printing)	3.5
Education and Training	2.7
Banking/Finance/Insurance	3.3
Logistics (Transportation/Building)	2.9
Defence/Security	3.5
Wholesale and Retail	3.6
Mining/Quarrying/Energy/Oil/Chemical	3.5
Services (Community/Professional...)	2.7
Public Administration: public service	2.6
Tourism/Hospitality/Clothing/Food & Bev...	3.5
Technology (ICT/Telecom/Electronics)	3.3
Other	2.5

The most notable positive changes to the economic sector ratings are among SMMEs (20.8%) and Non-profit companies (14.8%), while the most notable negative rating change is at District Municipal level (-28.6%). Although there is a significant improvement to the SMME rating, it has recovered to its rating 3.0 in 2015 (it was at 2.3 in 2014). The non-profit company rating was at 3.0 in 2015 and 3.3 in 2014.

The rating change at District Municipal level is significant, particularly when compared to the ratings of the previous years, which were both on 2.2. The 'other' category also had a negative change (17.2%), but which sectors are being referred to, is unknown. The industry with the most notable positive change is the manufacturing industry (9.4%), the highest rating for this category compared to previous years. The most negative rating changes are in the defence/security industry (-38%), which is a far cry from the 3.1 rating in 2014, and tourism/hospitality/clothing/food and beverage (-11.1%), which has seen a steady decline from its 3.6 rating in 2014.

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

Figure 2: Economic sectors respondents (%)

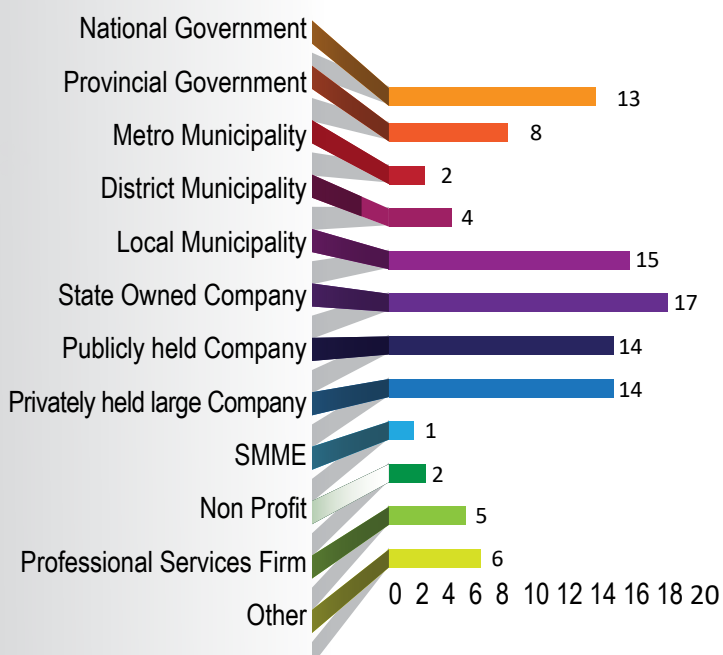
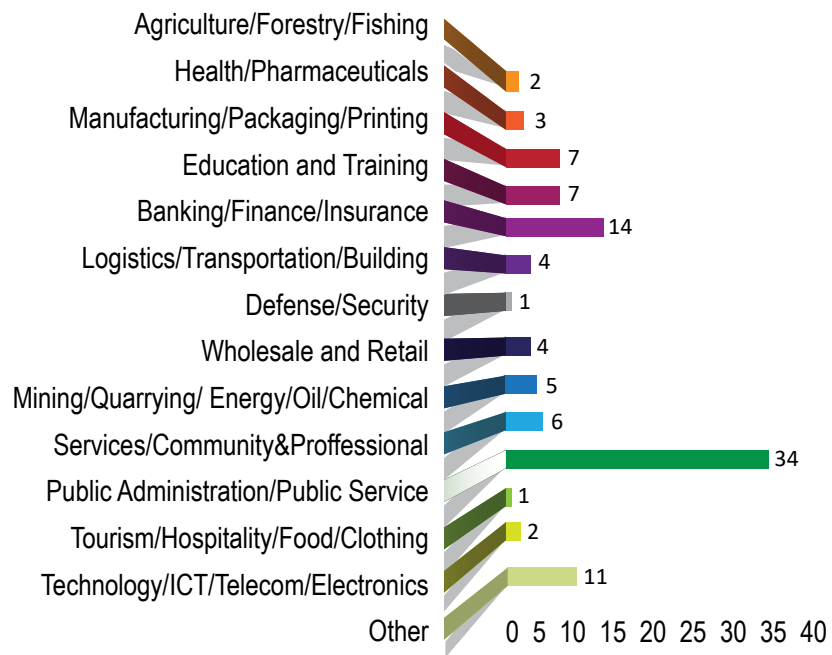


Figure 3: Industry sectors respondents (%)



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

Figure 4: Breakdown of various responses

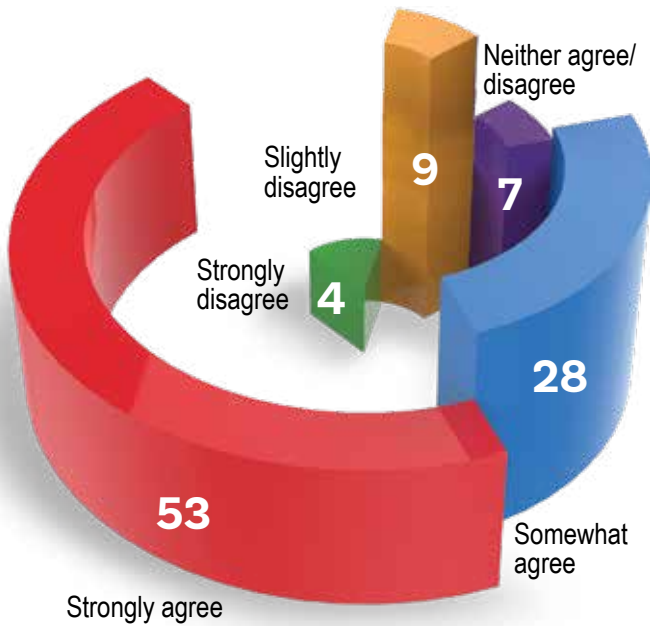
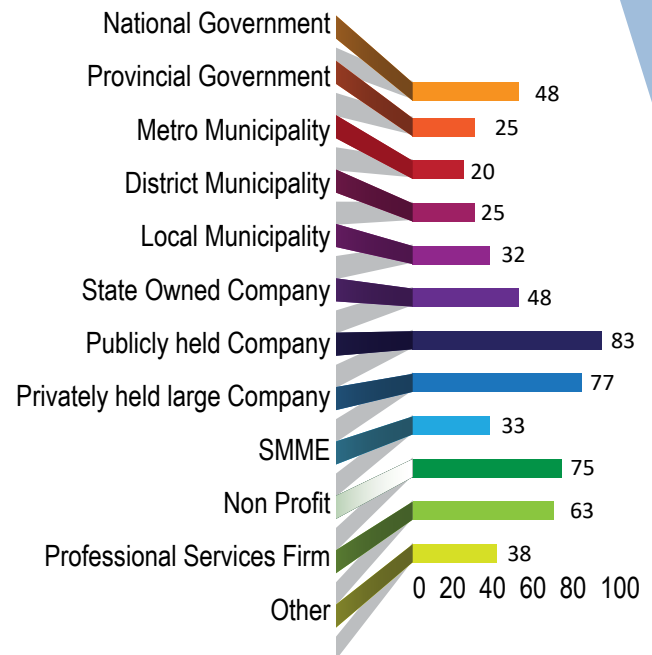


Figure 5: Respondents who strongly agree (% per sector)



Chief Audit Executives have confidently rated the Ethics dimension a 3 out of 4 for Corporate Governance in South Africa. We note this as a positive step in the improvement of good ethical practices in organisations in both the public and private sectors. It is an improvement in rating as the dimension took a dip in governance confidence in recent years where back in 2018 Ethics was rated 2.8 out of 4. Factors such as:

- an ethical culture
- a code of ethics
- whistleblowing
- zero tolerance to corruption, intimidation and victimisation
- ethical leadership

all contributed to an improved ethical, governance rating. Currently we are experiencing a disrupted, volatile environment, coupled with increasing reports of fraud and corruption, highlighted by the recent Zondo Commission Report emphasising governance challenges in the public sector. The need to protect entities and organisations is even

greater now more than ever and at the heart of keeping our institutions strong is the application of sound governance principles and keeping governance structures intact. While we see improvements in the practicing of ethics in most areas there are still challenges faced particularly in the leadership space where more is needed to advocate good governance practices. Professionals in the governance, accounting and auditing sectors have a key role in promoting good governance principles to assure the on best practice principles which leads to improving the productivity of the organisation as well as increasing the adoption rate of governance principles throughout South Africa's economic structures. The implications of a lack of ethical practices in society and organisations from our leaders include:

- Low staff morale
- Increased staff turn-over
- Decrease productivity
- Decrease in the reporting of unethical behaviour
- Tarnished organisational and personal reputations

- Decreased value of the organisation
- Adverse effects in the functioning of society and communities

The discourse around ethics should include the whole system, i.e. how decisions, politics in the organisation and industry, fairness in business practices, rewards practices etc. impact on the culture of the organisation. These often tend to be interconnected. Leaders should therefore avoid looking at the various factors in isolation. Leaders must fully understand the context within they operate and consider ethics in an integrated manner. South African organisations have the luxury of diversity, which gives leaders the opportunity to have rich conversations around ethics, taking a broad spectrum of views into account. It is of course important to note that ethics is not just about fraud and corruption, but includes all behaviour that may harm others, either directly or indirectly, such as abuse of power, manipulation, harming the environment, making decisions that negatively impact on stakeholders, discrimination etc. Leaders can therefore not afford to live under the assumption that once the tone has been set, their job is done. Setting the tone includes walking the talk, and visibly so, as well as having measures in place to ensure that the tone filters throughout the organisation. The following recommendations are suggested:

- Leadership should set the tone at the top
- Governing bodies, in organisations should adopt a more proactive approach to a lack of governance in findings reports
- Recommendations and action plans should be adhered to strictly and followed through.
- Training of ethics should be inclusive including how to deal with reporting.
- Leadership should act immediately on the reporting of unethical practices and behaviours.
- Conversations on the reporting of unethical practices and the protection of whistleblowers should be initiated and ongoing.

Another key component is the reporting of ethics and the reporting experience to ensure that there are safe channels to report fraud and corruption and that whistle blowers are protected. Leaders should ideally go further and ensure that they have periodic conversations around ethics and identify the ethical dilemmas the organisation as well as the employees may face in executing their duties. Training should therefore not only include ethics awareness, but also endeavour to build ethics intelligence in both leadership and the staff. This includes the ability to identify ethical implications in situations and decisions as well as the ability to deal with ethical dilemmas. In addition, managers should be trained on how to deal with situations when ethical issues are reported to them.



INTEGRITY



SENSITIVITY



CONTRIBUTION



ETHICS



GOALS

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 (%)

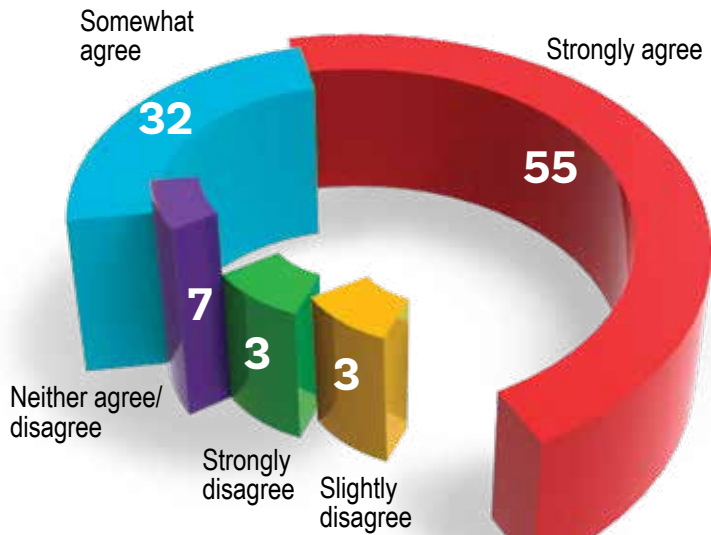
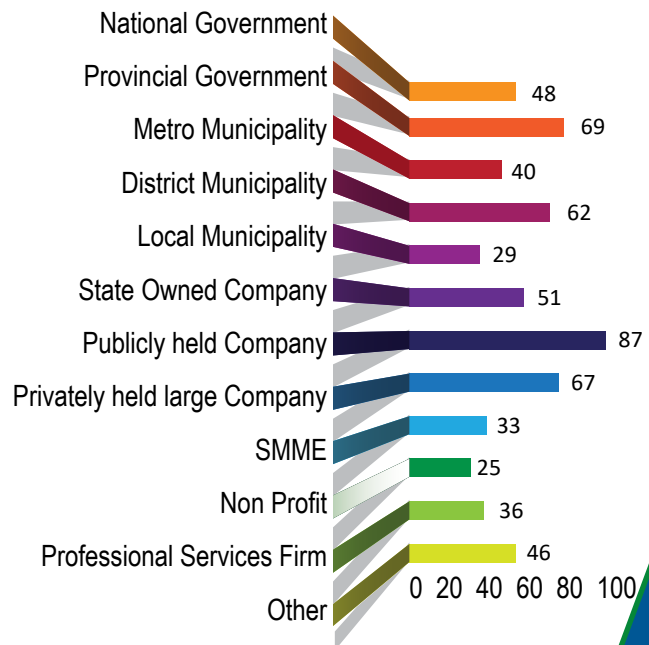


Figure 7: Respondents who strongly agree (% per sector)



The Compliance dimension has enjoyed a rating of 3 out of 4 for good corporate governance over the last 9 years. Organisations across the economic and industry sectors have, in the most part strictly adhered to laws and regulations pertaining to their sectors. We highlight the positive sectors such as Defense and Security rated an all-time high of 4 out of 4 in 2022, Publicly held large companies rated 3.7 and Logistics rated a 3 where previously it came in at a 2.1. The small to medium business enterprise sector has increased their rating in the past two years with a rating of 2 in 2020 and in 2022 the sector rated a 3 out of 4 for good governance.

Sectors that need improvement is Education and Training rated 2.6, Local Municipality rated at 2.5 and National Government rated at 2.7. With well over 300 pieces of legislation in SA, it is important that organisations set out to meet the prescribed rules, regulations, standards, policies and guidelines as prioritised within their strategic organisational objectives. By simply ignoring this priority, it comes with a hefty cost for organisations in the form of fines, reputation

damage, litigations and penalties. Regulatory compliance is one of the many costs of doing business currently. It is a norm for businesses to be required to comply with at least one, if not multiple sets of regulations. It is to be expected that some industries, such as the financial services sector, would carry a greater compliance burden. The cost of compliance can make leaders feel like they are wasting money and effort that should be spent on production and services. The South African legislative and regulatory universe is very wide. This coupled with constant changes may contribute to a degree of uncertainty in application as well as organisations not always being aware of what is applicable to them.

Some of the key questions oversight bodies, such as organisation boards, should ask include:

- Does the Board/oversight body recognise compliance as a key intangible that impacts on sustainable growth and profitability?
- Is there real commitment to compliance as opposed to it

being a window dressing exercise?

- Does the Board/oversight body receive assurance on a regular basis on the degree to which the organisation is adhering to the legislation and regulations relevant to it?
- Are adequate resources allocated to ensure the implementation of appropriate policies, procedures and controls to ensure compliance?
- Does the organisation continually scan the environment to identify trends that may indicate the introduction of new laws and regulations that may impact on the organisation?

Organisations are constantly exposed to risk and by prioritising compliance, risk is mitigated to a degree as legal penalties, monetary fines, reputation damages and material loss, is avoided. Avoiding compliance risks involves staying on top of your industry's specific legislation regulatory bodies, as well as government standards. By maintaining regular compliance, your organisation is automatically implementing the latest protections against data breaches and other risks. The South African Auditor General, Tsakani Maluleke emphasised the importance of Compliance when launching the 2020/21

MFMA report this year by saying "A clean audit is not always an indicator of good service delivery and does not always correlate directly to the lived experience of all the communities in a municipal area. However, we have seen that municipalities with institutionalised controls and systems to plan, measure, monitor and account for their finances and performance, and to stay within the rules, often also have a solid foundation for service delivery."

Compliance has become one of the biggest challenges facing businesses today. Failing to have the right controls and culture in place could mean forking out millions. Some of the guidelines for organisations to follow include:

- Address compliance requirements in an integrated approach.
- Map compliance and regulatory requirements against the organisations policies, processes and systems.
- Leverage off technology.
- Offer employee training on compliance and regulations.
- Encourage a culture of compliance within the organisation

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 (%)

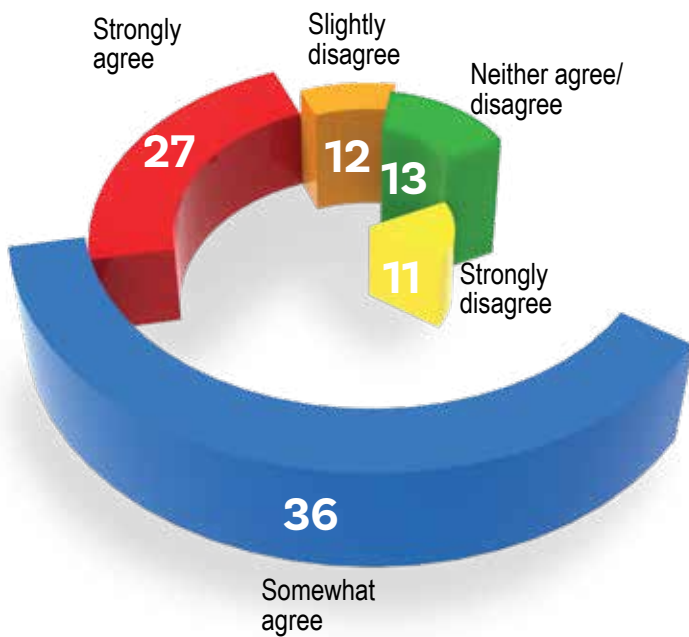
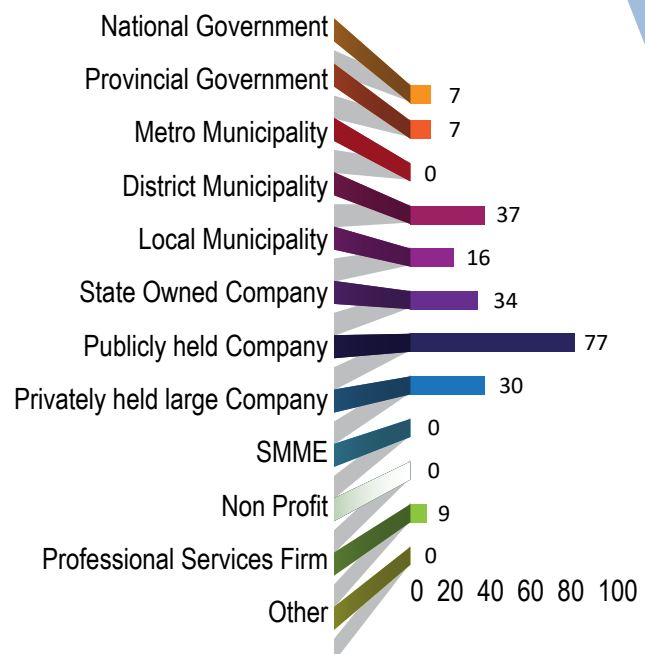


Figure 9: Respondents who strongly agree (% per sector)



The Leadership dimension country index was once again rated a 3 out of 4 for good governance in 2022 as is the case over the past nine years. The current economic conditions, globalisation, rapid changes in the environment, to mention a few variables dictate the imperative that South African organisations are led by strong leadership. It is also important that the executive team be held accountable in terms of their performance against the objectives of the organisation. A well skilled and diverse governance body should always apply its mind on whether the executive team has the right combinations of skills, remains up to date with leading practices and stays on top of developments in the industry. Both industry and economic sectors have rated the leadership dimension an average rating of 3 out of 4 as well.

Society and organisations are increasingly losing faith and trust in their leaders and legitimacy and credibility is being questioned. An overlooked component of leadership failures is the burn out effect as crisis situations arise and 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 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.

According to King IV the following qualities and practices must be an integral part of a good leader's character and conduct:

- Integrity: act in good faith and the best interest of an organisation
- Competence: act with due care, skill and diligence when making decisions.
- Responsibility: exercise courage in taking risks.
- Accountability: be willing to answer for the execution of your responsibilities
- Fairness: adopt a stakeholder inclusive approach
- Transparency: be transparent when executing your roles and responsibilities

Typical question: The process for identifying and managing risks involves an analysis of the organisation activities in the past to present period that will be useful to report on the present to future period.

Figure 10: Breakdown of various responses (%)

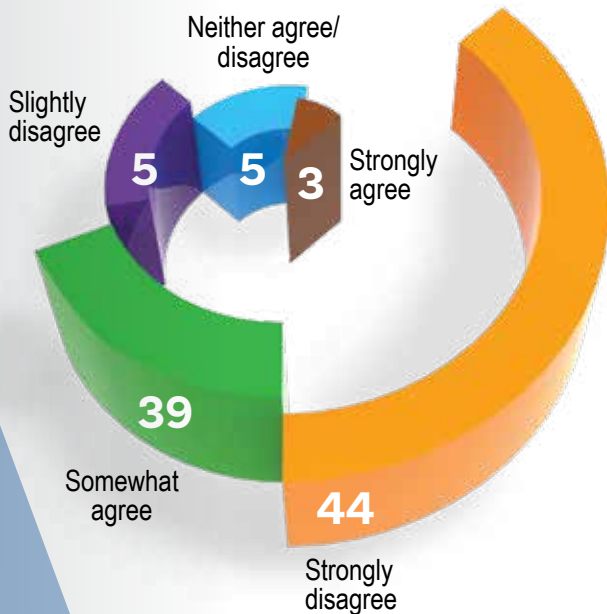
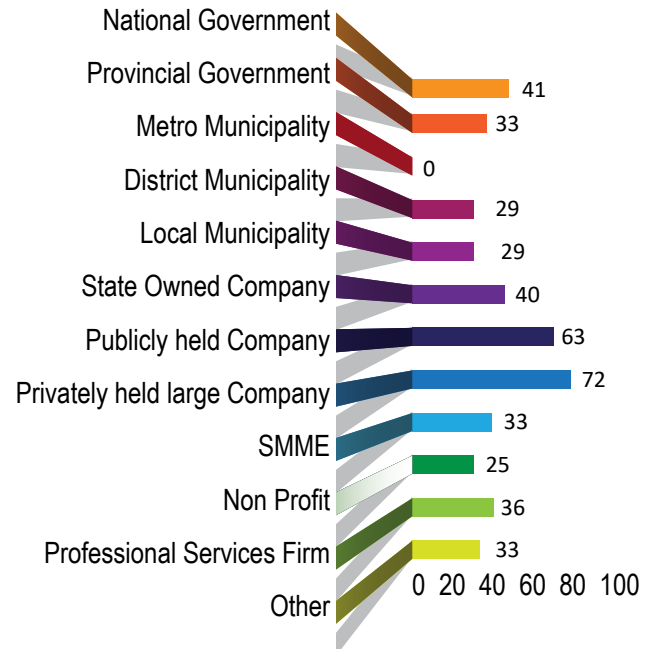


Figure 11: Respondents who strongly agree (% per sector)



The Operational Risk dimension has remained at a rating of 2.9 out of 4 in the past two years. Internal Auditors have the advantage to defend against fraud and provide foresight when it comes to risk identification. As organisations are adjusting to deal with operational risk such as a volatile business environment, supply chain disruptions, talent shortages, a rise in cyberattacks, to name a few, it leaves them vulnerable to fraudsters seeking to take advantage of the situation using increasingly sophisticated technology tools to carry out their crimes. Audit teams can be proactive in their defence of risk detection by thinking about:

- Conducting regular fraud risk assessments
- Anticipate fraud
- Raise awareness in audit reports to governing bodies and senior management
- Be prepared for scrutiny and accountability

In South Africa fraud is defined as “The unlawful and intentional making of a misrepresentation which causes actual prejudice, or which is potentially prejudicial to another.” In the 2018 PWC Global

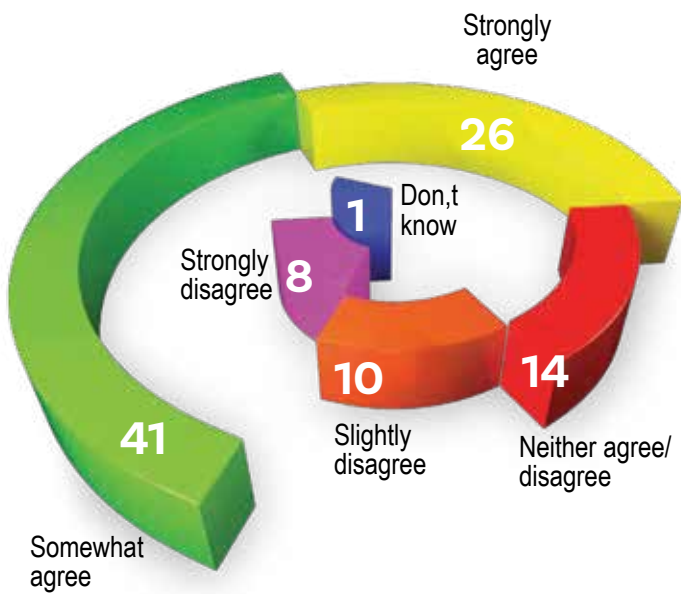
Economic Crime Survey, South Africa was found to have the worst white-collar crime rate in the world and there are primarily two types of fraud victims: individuals and organisations.

The Institute of Risk Management has identified the following key risks facing South Africa in 2022:

- South Africa becomes a failed state
- Complete breakdown of ethical and legal principles across society
- Unmanageable societal unrest and breakdown of the rule of law
- Complete economic collapse
- Lack of skills to enable economic growth and recovery
- Large scale disruption of economic activity relying on stable supply of utilities
- Large scale interruption of digitally enabled services and economic activity
- Debilitating loss of trade benefits through SA ports into Africa
- Inadequate response to current and future climate change impacts

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

Figure12: Breakdown of various responses (%)

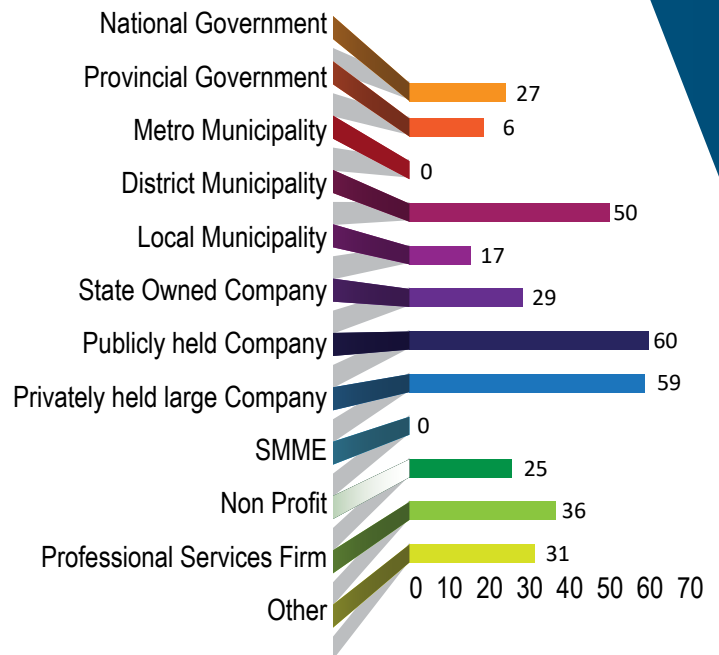


The External Risk dimension was rated a 2.7 out of 4 in 2022. The highest rating in this area was in 2017 where it was rated 2.8 and the lowest was in 2014 was 2.1. Not enough emphasis is placed on collaboration within organisations between divisions. In its essence the concept of Integrated Thinking incorporates cross functional collaboration besides the fact that it is an inclusive process of decision making, management and reporting. In this context it is not uncommon to find diverse teams of internal auditors, enterprise risk management specialists, compliance officers, internal control specialists, quality inspectors, fraud investigators, and other risk and control professionals working together to help their organizations manage risk.

External risk is vital at this point as it is not enough that the various risk and control functions exist, the challenge is to assign specific roles and to coordinate effectively and efficiently among these groups so that there are neither “gaps” in controls nor unnecessary duplications of coverage. Without a cohesive, coordinated approach, limited risk and control resources may not be deployed effectively, and significant risks may not be identified or managed appropriately.

Risk generally results from the possibility of an event occurring that will have an impact on the achievement of objectives. This risk can come from uncertainties both internally and externally. Determining whether risk management processes

Figure13: Respondents who strongly agree (% per sector)



are effective is a judgment resulting from the internal auditor's assessment that:

- Organisational objectives support and align with the organisation's mission.
- Significant risks are identified and assessed.
- Appropriate risk responses are selected that align risks with the organisation's risk appetite.
- Relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management, and the board to carry out their responsibilities timeously.

The evaluation of an organisations governance risk exposure incorporates:

- Achievement of the organization's strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.

To strengthen the defence against external or operational risks, working on scenarios is a sure way to gain foresight on potential risks as well as to strategically plan for the future.

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

Figure14: Breakdown of various responses (%)

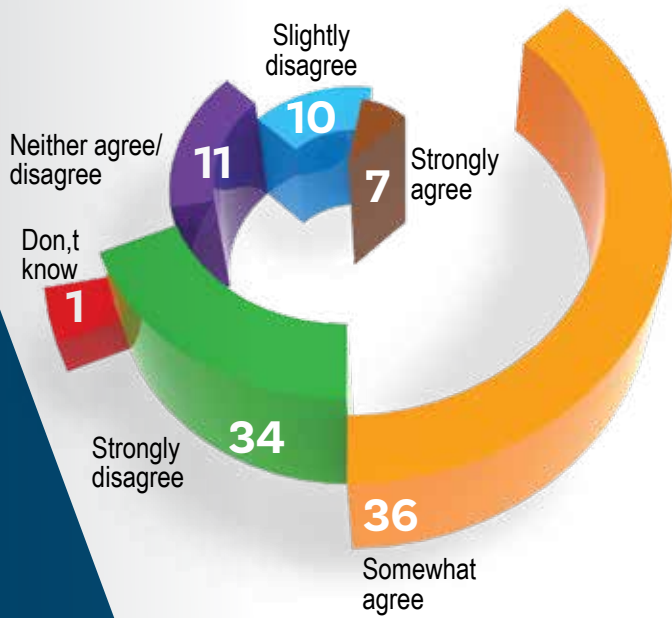
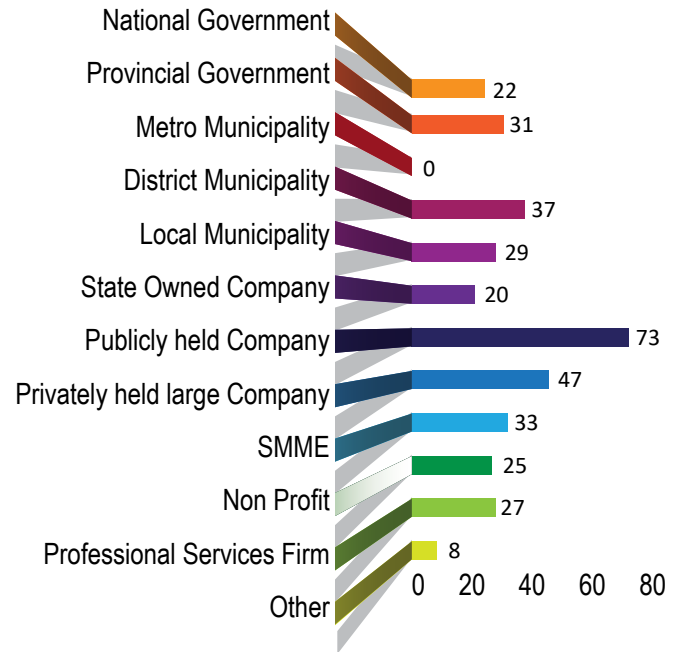
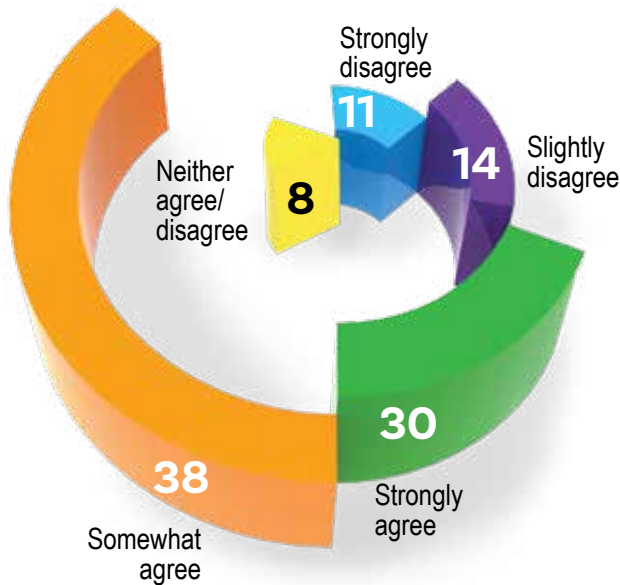


Figure15: Respondents who strongly agree (% per sector)



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

Figure 16: Breakdown of various responses (%)

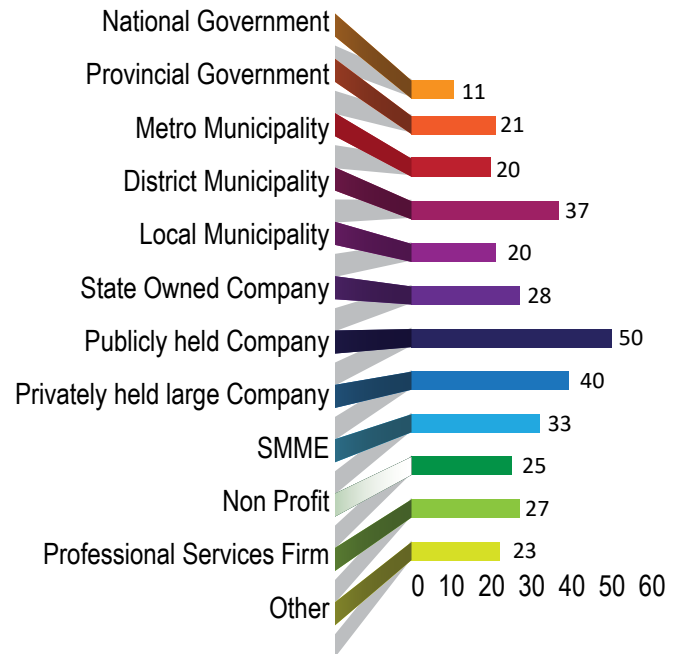


The Performance dimension has a rating of 2.9 out of 4 for corporate governance. This is the highest this dimension has been rated in the past nine years. In the economic sectors the lowest ratings were in the metro municipality rated at 2.2 and local municipality at 2.4. Sectors that scored high were the district municipalities rated at a 3 and publicly held large companies at a 3.7 out of 4. Performance governance works well when the key focus is on organisational strategy and value creation which leads to a ripple effect that will identify the risk environment in the organisation and create decision making points within this risk environment. According to the CISCO 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. With the fast pace at which technology is moving, South African organisations run the risk of falling behind the rest of the world. ICT should be on the agenda of oversight bodies and members of oversight bodies should familiarise themselves with the key ICT trends affecting their industries to ensure that they ask the right questions of management.

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



Another aspect of Performance that has drastically changed, on a global scale, is the way we work. Many organisations are opting to adopt a work from home policy as well as a hybrid model of working. According to the SA Board for People Practices only 50% of workers have a component of their jobs that can be worked on from home. In the United States the Labour Statistics reports that the financial and computer industries 80% of the jobs can be worked on from home, for manufacturing it is 40%, retail is 26.5% and agriculture and fishing only 8%. The SABPP states that hybrid working models do not apply to all organisations and a blanket approach is likely to fail. Organisations must be intentional about hybrid working models. The study has shown that 55% of eligible employees want to work at least part-time from home, but 87% believe that working in the office is essential for collaboration, relationships, creativity, and socialization.

The CIPD highlights the following areas of HR practice that can impact significantly on the success of an organisation’s digital transformation:

- Using technology to improve hiring and onboarding
- Harnessing digital learning platforms to enhance talent growth
- Mobilising wellbeing initiatives through technology
- Creating impactful and inclusive learning
- Making reward more accessible and performance management fairer
- Operating efficiently - implementing HR information systems
- Assisting organisation to ensure responsible investing in technology

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 (%)

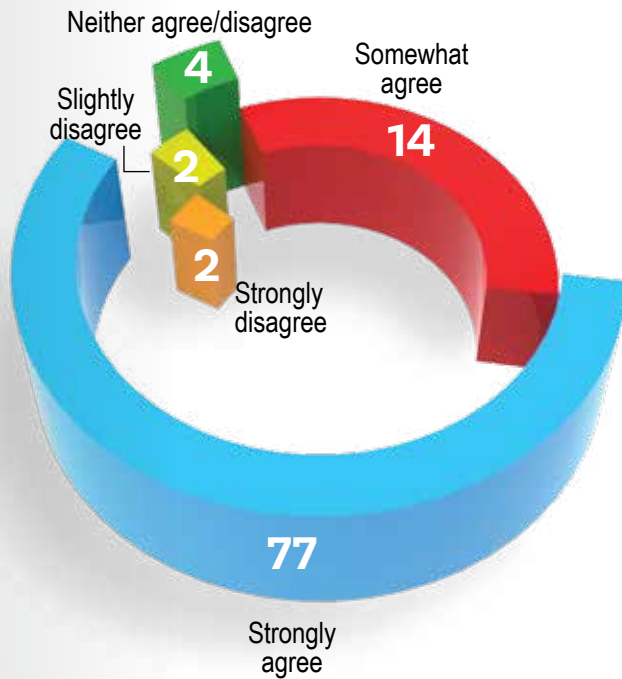
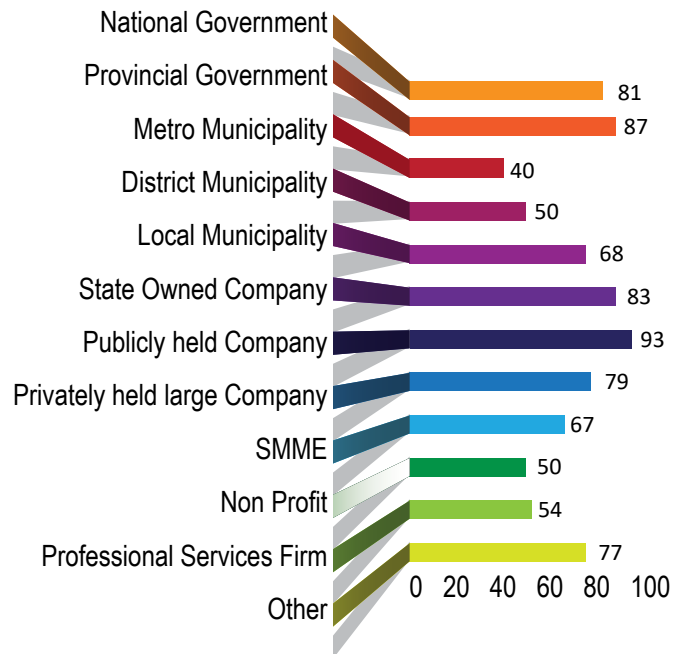


Figure 19: Respondents who strongly agree (% per sector)



The Assurance dimension has rated a 2.9 out of 4 in 2022. Metro municipalities rated this area a low 2.1 for this governance dimension but on the private sector side publicly held large companies rated Assurance a high of 3.5.

Globally and locally, there is an emphasis on training and development for internal auditors to gear themselves up for a future fit role in organisations. The Institute of Internal Auditors South Africa has particularly focused its continual development programmes and events around having a future fit internal auditor, looking specifically at the technological and digital needs of organisations for the future.

The future role of internal audit ensures that they stay ahead of the curve and in the know on new digital trends. This means that time is utilised effectively between tangible objective assurance tasks and continual professional development to meet the varying expectations of key stakeholders.

The key focused risks identified by internal audit in the current economic environment include:

- cyber and information security
- data privacy
- IT infrastructure investment
- IT governance
- social media
- cloud services
- contract data bases
- supplier management

The internal audit function ensures continual updates on new and emerging risks and trends in this space. To ensure value added audit reports for organisations, it is key to keep track on new trends in the digital space.

External risk factors include:

- market forces
- economic volatility
- regulatory changes will also have to be evaluated by Internal Audit in performing their role of being advisors to the organisation.

KEY RESEARCH FINDINGS

Our key research findings are:

1. The overall Country index for corporate governance is rated 2.9 out of 4. This rating has shown an encouraging improvement in the last 3 years. The overall rating of 3 out of 4 on corporate governance has still not been achieved since 2013 however out of the seven (7) governance dimensions that were rated, the spider graph has shown an improved move towards a 3 out of 4 rating for Governance in South Africa.
2. Compliance maintains a steady rating of 3 out of 4 and this is very encouraging to note that organisations are adhering to the regulations and laws that govern public and private sector economies. Not only is this good business but all stakeholders of the organisation stand to benefit in the long term.
3. Ethics has seen an increase in rating to a 3 out of 4 for Corporate Governance. Over the last two years it has remained a steady 2.9 rating. We are encouraged those organisations, across the various economic sectors have made a concerted effort to increase ethics awareness and enhanced an ethical culture from the top down. This practise should be continuous and maintained to build up a positive reputation with all key stakeholders affected by the organisation.
4. Assurance has remained at a rating of 2.9 out of 4 but we are pleased that most industry sectors have increased their ratings on assurance when it comes to Internal Audit having a sufficient degree of independence to execute on their duties effectively without undue influence. Most chief audit executives are pleased that this area has improved when it comes to governance in organisations.
5. Operational Risk, as assurance, has remained at a rating of 2.9 for the last two years. Steady effort in this area has been made to identify and manage operational risk. We encourage organisations to always maintain a risk register and have the risk discussion across divisions at least twice a year as this would mitigate and lessen risk threats that could affect the organisation in a negative way.
6. External Risk dimension has seen a slight improvement from a rating of 2.6 for the last three years to a rating of 2.7 out of 4. This a positive move in terms of steady progress in organisations as we have witnessed unseen external risk has forced many businesses to close in South Africa in the last two years, mainly due to Covid 19. This is one area in governance that needs more effort in improvement for sustainability to be maintained in organisations.
7. Performance has improved from a rating of 2.7 to 2.9 out of 4 and we are encouraged that the six capitals (manufactured, financial, human, natural, intellectual and relationship), are optimally utilised and managed in organisations across all economic sectors.

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.

In 2022 we have seen a shift in governance improvement and a steady focus on the importance of corporate governance 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	6	2	4	22	64	1
Ethics is an important part of your organisational culture.	4	9	7	27	52	1
Your organisation has a Social and Ethics Committee in place that reports on organisational ethics, corporate responsibility and sustainable development.	22	9	7	17	44	1
Your organisation has a process in place to report on unethical practices and behaviour in a safe and responsible manner for potential whistleblowers.	9	5	3	18	65	0
Your organisation is committed to the protection of whistleblowers and potential whistleblowers.	11	4	12	20	52	0

COMPLIANCE

Questions

	Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
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.	10	9	9	36	36	0
Your oversight / governing body ensures continual monitoring of the regulatory environment and compliance with relevant legislation, regulation and standards	3	7	3	32	55	0

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

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.	5	7	5	29	53	1
Members of your oversight / governing body are adequately diverse and skilled and act with independence of mind.	5	4	8	29	54	0
The composition, roles and responsibilities of your oversight / governing body and its committees are appropriate with minimal overlap and fragmentation of duties	3	8	8	27	53	1
There is effective collaboration among your organisation's leadership and oversight committees on matters of the entrenchment of good governance practices throughout the organisation	6	7	5	35	47	0
There is a balanced distribution of power among your organisation's oversight committees	4	9	6	31	49	1
The leadership ensures that integrated thinking is integral in the structures and processes that the organisation utilises in delivering on its strategy	5	10	8	38	38	1

QUALITY ASSURANCE REVIEW

All Internal Audit activities should conform to the IPPF. Does your Internal Audit activity conform with the mandatory elements of the IPPF?

To learn more about how to conform to the IPPF please visit the Leadership Academy for Guardians of Governance website:

www.governanceacademy.co.za or contact:
Unathi Mnyimba - Email: Unathi@iiasa.org.za
Tel: +27 11 615 0355



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

PERFORMANCE

Questions

	Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
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	6	7	7	29	50	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	5	9	7	32	45	2
Your oversight / governing body ensures accountability of organisational performance through accurate reporting and disclosure to the organisation's stakeholders	5	8	4	22	62	0
The Information Communication Technology (ITC) strategy is aligned to the strategic objectives of your organisation	7	11	10	36	34	2
Your organisation has suitable human resource capital to execute its strategy effectively and optimally	11	14	7	38	30	0
Your organisation promotes a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time	7	11	9	37	34	2
Your organisation utilises its financial capital optimally (i.e. managing finances) to achieve the best possible sustainable outcomes	7	12	9	37	34	2
The leadership is familiar with and utilises all the Integrated Reporting principles in the organisations value creation process	11	12	13	36	27	1

OPERATIONAL RISK

Questions

	Strongly disagree	Slightly disagree	Neither agree/disagree	Somewhat agree	Strongly agree	Don't know
The process for identifying and managing risks involves an analysis of the organisation activities in the past to present period that will be useful to report on the present to future period.	3	8	5	40	44	0
The leadership gives adequate attention to the opportunities, risks and disruptions associated with advances in technology and information	8	14	9	38	31	0

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

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
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9	11	11	35	34	0
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Leadership and oversight committees display a good understanding of the varying roles of assurance providers.

5	6	7	34	48	0
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ASSURANCE

Questions

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
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9	10	11	36	34	0
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Internal audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference

2	2	4	14	77	0
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Internal audit has adequate resources to enable it to execute its duties effectively

18	17	6	28	31	0
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Being a member of the Institute means being part of a community of like-minded professionals, who collectively form the face of the profession. It provides you with the opportunity to contribute to building the profession and shaping its future, while ensuring that it is safeguarded against becoming irrelevant. It also provides the Internal Auditor with the opportunity of being recognised by the market as a professional as well as with access to services that are aimed at assisting the Internal Auditor in realising his/her full potential in service of the greater good.

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Internal Auditors
South Africa

ACKNOWLEDGEMENTS



The annual IIASA Corporate Governance Index report is developed and compiled by the Policy Department Head, Laverne Leibrandt together with support staff Motlatsi Lesiea.

The IIA SA also would like to acknowledge and thank **Dr Blanche Steyn (CA-SA, ACMA, CGMA, CISA, and CIA), Department of Auditing: University of Pretoria**, for her valuable contribution to the research data analytics and data compilation.

Laverne Leibrandt - Head of Policy
(responsible for the development and publishing of the annual CGI report)

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