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I am pleased to present to you the 5th edition of the Corporate Governance Index. When we kicked started the process in 2013 we could not imagine how important this Index would become as a barometer of the state of Governance in South Africa. I still strongly believe that its credibility and importance lies in the fact that the survey is completed by the one group of people who have both insight in the state of governance in their organisations and are independent assurance providers. They can therefore give an objective view, while for all other relevant groupings it would be a self-assessment to a large degree.

Two things have happened since the release of the 4th edition that are worth mentioning. The one is the release of King IV and the second the significant scandals which came with far reaching implications, with the Gupta leaks being a significant foreunner.

I must say that I was very pleased to see King IV not only further emphasising the notion of principle based governance, that expects application of mind from governing bodies, but also greater emphasis is placed on what I call the ‘higher order issues’ such as integrated thinking and corporate citizenry, with the related responsibilities. We naturally felt that it was important that we align the Index to King IV as it was previously aligned to King III. Some of the questions were refined as a result and a few new questions were added. We did of course have the difficult task of ensuring that we do not add too many questions to the various dimensions, lest we end up with a lengthy questionnaire which survey weary South Africans will not come out of it unscathed. This is therefore a time for professional bodies to step up as an important line of defence in the South African society and hold their members accountable.

The areas that pleased me the most in this edition of the CGI include:

• Significant improvements in both the operational and external risks dimensions when one drills down to the sector results. The external risk dimension in particular had been of grave concern since the inception of the Index. It appears that South African organisations are becoming a lot more conscious of the increasing risks in the environment and those that affect their organisations internally.

• Although the ratings weren’t particularly high, I was pleased to see the progress made in the application of Integrated Thinking and Reporting principles. This is still a fairly new concept and it is therefore understandable that it will take some time to become entrenched in how our organisations are run. Integrated Reporting was first crystallised in South Africa. It is therefore important that South African organisations lead the way in the implementation thereof.

• There seems to be a sense that there has been an improvement in the tone that is being set by oversight bodies indicating zero tolerance towards unethical behaviour. I would just like to see some more emphasis on ensuring that it filters down in the organisation as there seems to be some disconnect between that tone being set and what plays out in the culture of the organisations.

The areas that gave me grey hairs include:

• A trend that points to a decline in ethics in organisations. On the question of whether ethics is an important part of the organisational culture we have seen a drop in CAEs strongly agreeing from 66% in 2013 to 53% in 2017. This may have been influenced by the constant negative news in the media, but the question was very directly pertaining to their own organisations and of my biggest concerns in the ethics dimension is that South Africans often only associate ethics with fraud and corruption and do not always include issues such as inequality in remuneration policies, anti-competitive behaviour, exploitation of staff, sexual harassment, discrimination based on issues such as gender or race, harming the environment and communities etc., when they rate organisations on ethics. I have to wonder whether respondents had taken all facets of ethics into consideration when they answered the question and whether the ratings could potentially be worse.

• Although I have mentioned above that I am pleased to see the improvements in the risk dimensions, I am still concerned about the CAEs sentiment in these areas. Given the volatility, uncertainty, complexity and ambiguity that has become standard in our current reality, we have to see a greater emphasis on risk identification and management of risk.

• With the speed at which technology is evolving, I would expect organisations to be a lot more attuned to ensuring that their ICT strategy is relevant and aligned to the organisation’s objectives. ICT governance is an oversight body’s responsibility. It is therefore important that those in leadership positions ensure that they stay abreast with technology developments and ask the right questions around the organisation’s technology readiness.

There are significant decreases, in a number of sectors, in the percentages of CAEs who strongly agreed that internal audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference. The biggest drop is in the ‘other’ group (55% in 2016 and 16% in 2017), followed by local municipalities (86% in 2016 and 46% in 2017), and followed by state owned companies (74% in 2016 and 46% in 2017). Given the adverse findings in the Auditor-General’s reports on local government and the cloud of corruption over a number of state owned entities, this makes me feel very uneasy as a South African.

The Index is intended to be a tool that is used by the leadership in organisations to benchmark themselves against and have in-depth discussions around the various dimensions, and in particular how they can improve. I trust that you will not only enjoy reading the Index report, but that you will find value in utilising it in your organisation.

Dr Claudelle von Eck
Chief Executive Officer
The Institute of Internal Auditors South Africa
November 2017

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, recognised 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, The King Report 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 (IPSF) 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
The IIA SA's Corporate Governance Index 2017 reflects the views of two hundred and eighty one (281) Chief Audit Executives (CAEs), the most number of respondents the survey had since it was published in 2013. These CAEs are well positioned to provide a relatively impartial view of the state of corporate governance in South Africa, across industries and economic sectors. The 2017 CGI Survey Questionnaire was revised to include the new King IV code of governance principles.

This edition, the fifth for the IIASA, was developed through the technology and research assistance of the University Of Johannesburg School Of Accounting. 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 Internal Audit out of a rating scale of four (4). One (1) scoring very low and four (4) scoring very high.

The 2017 research study has indicated the following:

1. The consistent 2.9 increased to a 3 rating scale out of 4. We do note, however, that the highest rating achieved was in 2013, which was a 3.2.

2. There are a few areas where less than 50% of the CAEs strongly agreed that their organisation adhered to the relevant governance principle. These are:
   a. The leadership is familiar with and utilises all the Integrated Reporting principles in the organisation's value creation process. (29%)
   b. Your organisation has suitable human resource capital to execute its strategy effectively and optimally. (28%)
   c. Your organisation’s human resource capital is optimally utilised. (24%)
   d. Given its current resources, your organisation’s output/delivery is at optimal level. (28%)
   e. Within your organisation Internal Audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference. (72%)

3. The areas where more than 50% of the CAEs strongly agreed that their organisation adhered to the relevant governance principle are:
   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. (68%)
   b. Ethics is an important part of your organisational culture. (53%)
   c. Your audit committee is effective in all the dimensions within the ambit of its responsibilities. (54%)
   d. Your oversight/governing body ensures accountability of organisational performance through accurate reporting and disclosure to the organisation's stakeholders. (52%)
   e. Within your organisation Internal Audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference. (72%)

4. The CAEs were asked in open ended questions to indicate what they believe the top three key risk areas will be for their organisations. The following themes emerged as the top ten (in order of frequency of mentions):
   » Financial capital. In particular adequate funding for strategic initiatives.
   » Compliance with regulations and legislative changes. Including the cost of onerous requirements.
   » Fraud and corruption. Within organisations as well as in the broader society.
   » ICT. Including digitisation and disruptors.
   » Cybercrime and security.
   » Human capital. Including lack of skills.
   » Political instability
   » Sustainability
   » Lack of leadership skills
   » The economy and market conditions

5. The following themes are also worth mentioning. Although not in the top ten, they came through as clear areas of concern:
   » Reputational risk
   » Political interference
   » Food and water security
   » Competition (including new entrants from outside SA)
   » The environment – climate change

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Summary of the most notable insights per sector</th>
<th>2017 Internal Audit has a sufficient degree of independence</th>
<th>2016 Internal Audit has a sufficient degree of independence</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Government</td>
<td>2.6</td>
<td>2.7</td>
<td>44%</td>
</tr>
<tr>
<td>Provincial Government</td>
<td>2.9</td>
<td>2.8</td>
<td>56%</td>
</tr>
<tr>
<td>Municipal (Metro)</td>
<td>2.9</td>
<td>3.0</td>
<td>60%</td>
</tr>
<tr>
<td>Municipal (District)</td>
<td>2.0</td>
<td>2.8</td>
<td>57%</td>
</tr>
<tr>
<td>State owned company</td>
<td>2.8</td>
<td>2.8</td>
<td>46%</td>
</tr>
<tr>
<td>Publicly held company</td>
<td>3.3</td>
<td>3.1</td>
<td>60%</td>
</tr>
<tr>
<td>Privately held large company</td>
<td>3.3</td>
<td>3.1</td>
<td>47%</td>
</tr>
<tr>
<td>SMME</td>
<td>2.9</td>
<td>2.4</td>
<td>57%</td>
</tr>
<tr>
<td>Non-profit company</td>
<td>3.1</td>
<td>2.7</td>
<td>71%</td>
</tr>
<tr>
<td>Professional services firm</td>
<td>3.1</td>
<td>2.9</td>
<td>48%</td>
</tr>
<tr>
<td>Other</td>
<td>2.4</td>
<td>2.9</td>
<td>16%</td>
</tr>
</tbody>
</table>
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 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 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 over a period of three months between March and May 2017. A total of Two hundred and eighty one (281) 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 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 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.
(In this section some results are highlighted. The full list of questions and responses are on pages 23-25)

**ETHICS**

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

![Figure 4: Breakdown of various responses](image)

![Figure 5: Respondents who strongly agree (% per sector)](image)

The sentiment among the CAEs has seen a consistent drop in this section. In 2017 53% strongly agree that ethics is an important part of their organisation’s culture. In 2016 55% strongly agreed, and in 2015 it was 60%. The inaugural index in 2013 saw the highest percentage strongly agreeing at 66%, a significant 13% higher than the current year. This downward trend does not bode well for South Africa as a decline in ethics would ultimately have a ripple effect into the economy, with the poor suffering the most likely collateral damage.

The Anti-intimidation and Ethical Practices Forum (AEPF) released its inaugural Ethics Survey in September 2017. The survey is telling and when read in conjunction with this report, the following results are worth noting:

- **74% strongly agree** that it is their personal duty to report unethical behaviour. The overall agree category amounted to 91%. Yet, only 30% strongly agree that they feel comfortable reporting unethical behaviour. The overall agree category amounted to 54%. Reasons for the discomfort may be found in the fact that of those who had reported unethical behaviour, only 22% strongly agreed that it was easy to report unethical behaviour (the overall agree category amounted to 36%), while only 10% strongly agreed that the leadership took positive steps when they reported unethical behaviour (the overall agree category amounted to 33%).

- **Of grave concern is the fact that 15% strongly agreed** that they had been intimidated for doing the right thing (the overall agree category amounted to 24%) and 9% reported that they feared for their lives for reporting unethical behaviour (the overall agree category amounted to 15%).

- It is notable that when comparing the results in the public vs. private sectors, it is clear that the sentiment of the CAEs in the public sector is much less optimistic than that of their counterparts in the private sector. Apart from Metro municipalities, less than 50% of CAEs in all the public sector entities agreed strongly that ethics is an important part of the organisational culture. The most notable changes in the percentage of CAEs strongly agreeing that ethics is an important part of the culture, compared to the 2016 results are in the metro municipalities (up from 33% to 60%), the district municipalities (down from 20% to 0) and non-profit companies (up from 33% to 57%).
There is a slight improvement in the percentage of CAEs who strongly agreed with this statement, i.e. 55% against 52% in 2016. The percentage of those who agreed somewhat have however decreased from 36% to 31%, bringing the combined agreed responses down by 3%. There have not been significant movements in this category during the life cycle of the Index.

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. Tom Thompson (2015), gives the following advice to organisations:

- Greater balance is needed as many organisations tend to only focus on the positive and do not contemplate in the report what the organisation is doing to mitigate against the negative.
- Disclosure of performance against strategic objectives. Roberts reports that public sector organisations often fare better in the area than their counterparts in the private sector.
- Greater balance is needed as many organisations tend to only focus on the positive and do not contemplate in the report what the organisation is doing to mitigate against the negative.

In this dimension, the CAEs were also asked whether their organisations go beyond a tick box exercise in terms of corporate governance, i.e. that there is a deep understanding of and commitment to implementing the principles and philosophy of good governance. Only 34% of the CAEs strongly agreed, with 42% agreeing somewhat. It is only when the principles are truly understood that organisations move beyond a tick box exercise, with governance no longer being a grudge compliance. King IV particularly tries to address this notion by having moved to an apply-and-explain, based on principles, requirement, which is intended to motivate the leadership to apply their minds around the governance principles and not just tick boxes around rules.

The most significant changes in the percentage of CAEs strongly agreeing to the Leadership dimension where the second lowest percentage that needs to be given some time to develop, the other new area includes information on the board’s composition and skills, the committees and major issues discussed during the year.

- Disclosure of performance against strategic objectives. Roberts reports that public sector organisations often fare better in the area than their counterparts in the private sector.
- Greater balance is needed as many organisations tend to only focus on the positive and do not contemplate in the report what the organisation is doing to mitigate against the negative.

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

This category is a new addition as a result of the alignment of the Index to King IV. The Integrated Reporting concept was first crystallised in South Africa, but is still a relatively new concept. It is therefore reasonable to expect that the responses would not yet be very positive. As could be expected, publically held companies are ahead of most in adopting Integrated Reporting. JSE listed companies started releasing Integrated Reports in 2010/2011, from where it spread to other sectors. It is however noteworthy that the highest percentage of CAEs strongly agreeing are in metro municipalities. As this category is new, no comparative data exist yet. It is however a crucial element highlighted in King IV and should be monitored going forward.

Lessons learnt in the last number of years where organisations could improve their Integrated Reports include (Leigh Roberts, July 2017):

- Disclosing the outcomes of the organisation’s products, services and business activities. Organisations should disclose the positive and negative consequences on the six capitals, i.e. whether each of the capitals have increased or decreased respectively.
- More attention should be given to disclosures around governance. This
Typical question: The process for identifying and managing risks is adequate and aligned to your organisation's strategic objectives?

As organisations have to navigate through a world of volatility, uncertainty, complexity and ambiguity (VUCA), it naturally translates into increasing complexity within the organisation, which in turn affects the ability to manage operational risk effectively. In the 2016 questionnaire the question around the process of identification and the process of managing risk were in two separate questions with the percentage of CAEs strongly agreeing being 35% and 46% respectively. Sentiment appears to have become somewhat less positive.

A new question that was added to this dimension is whether the process of managing risks within the organisation is adequate, significant increases in the percentage of CAEs strongly agreeing is observed across most sectors. The most significant increases are seen in national government (up from 15% to 37%), provincial government (up from 15% to 34%), metro municipalities (up from 30% to 60%), district municipalities (up from 0 to 28%), local municipalities (up from 23% to 46%), privately held large companies (up from 29% to 61%), SMMEs (up from 25% to 42%), non-profit companies (up from 11% to 57%) and professional services firms (up from 27% to 26%). The significant improvement may partially be ascribed to the re-wording of the question, but most likely also due to organisations being faced with more VUCA and therefore compelled to spend more energy on risk management.

Modern analysis tools, business modelling and access to information in global networks make it easier for organisations to manage operational risks. Integrated thinking in a culture of openness and sharing of information is key.

When comparing the results on the question whether the process for identifying and managing risks is adequate and aligned to the organisation's strategic objectives to the 2016 question whether the process of managing risks within the organisation is adequate, significant increases in the percentage of CAEs strongly agreeing is observed across most sectors. The most significant increases are seen in national government (up from 15% to 37%), provincial government (up from 15% to 34%), metro municipalities (up from 30% to 60%), district municipalities (up from 0 to 28%), local municipalities (up from 23% to 46%), privately held large companies (up from 29% to 61%), SMMEs (up from 25% to 42%), non-profit companies (up from 11% to 57%) and professional services firms (up from 27% to 26%). The significant improvement may partially be ascribed to the re-wording of the question, but most likely also due to organisations being faced with more VUCA and therefore compelled to spend more energy on risk management.

A number of recent events have proven that it has become increasingly more difficult to predict the outcome of even immediate future events. The #Gupta leaks is an example of how quickly a new external risk may materialise. Most of the organisations who had distanced themselves from KPMG did not realise at the time when the survey for this year was being conducted that they would be facing reputational risk as a result of their association with KPMG. Thus constantly exploring multiple potential outcomes as a result is an essential risk in the environment, and ensuring that enough agility is built into the organisation’s workforce and systems to quickly adapt to change, are among the key factors the leadership should focus on.

The Institute of Risk Managers South Africa’s (IRMASA) 2017 Risk Report highlights the following as South Africa’s top five country level risks:

- Increasing corruption. IRMASA reports that this risk has remained the top South African risk for the second time in three years. It is also reported as the fifth highest industry risk level for 2017. The CGI bears this out in the apparent decline in sentiment in the Ethics dimension of this report. It should be noted that if this trend continues, corruption is likely to become endemic. The political noise in the system is not as big a risk as institutions failing as a result of corruption.
- Further credit rating downgrades. This risk has already partially materialised in the last year. The Reserve Bank of South Africa highlighted the following risks in its 2017 best edition of its Financial Stability Review: Further credit rating downgrades is flagged as a high risk with a significant impact on financial stability in South Africa. Exclusion from major global bond indices and sovereign ceiling downgrades inevitably lead to higher cost of and reduced access to funding. It also means more expensive funding for banks and reduced credit to the private sector.
- Headwinds for the South African financial system is flagged as a medium risk with medium impact on financial stability. Factors that spill over to the banking sector include higher unemployment, low growth in disposable income and individual and corporate debt positions.
Policy uncertainty in the USA is flagged as a medium risk for South Africa with medium impact. Factors that could impact on spills over to South Africa include capital outflows, exchange rate volatility and increased funding and credit risks.

Financial systems vulnerability is flagged as medium risk for South Africa with medium impact. Slower global growth and higher financial market volatility have implications for domestic monetary policy.

Increasing strike action. With a country that has seen increasing inequality, it is unlikely that this risk will minimise soon. This is further aggravated by disparity of salaries that runs along racial lines in South Africa’s historical context and poor education and training. Increasing strike action may often result in higher wages for workers, but may on the other hand reduce stability in the country as well as a situation where unionised workers are secure with the unintended potential consequence of millions being prevented from entering the job market as a result.

Profound political and social instability. The uncertainty created by infighting in the governing party is one of the greatest contributing factors to this risk materialising. This coupled with lack of quality service delivery in many parts of the country, slow transformation in the private sector, increasing corruption and increasing youth unemployment creates a recipe for political and social instability. The global analysts Eurasia Group has listed South Africa’s political crisis among the 10 political events that may lead to a breakdown in international relations.

Goverment failure. A tick box approach to governance is one of the root causes of governance failures. Only 34% of the CAEs surveyed for the GI strongly agreed that their organisations go beyond a mere tick box exercise when it comes to governance. Where there is no real deep understanding of and commitment to implementing the principles and philosophy of good governance, a real risk exists that government will fail. In a society where financial success is more important for the majority than doing the right thing, the likelihood of the risk materialising is high.

As with Operational Risk, this dimension has also seen significant improvement in the percentage of CAEs strongly agreeing that the organisations continually consider multiple futures to ensure an adaptive strategy to mitigate unexpected external risks that may arise beyond the boundaries within which the organisation operates. The question was slightly rephrased as: your organisation utilises scenario planning to mitigate against unexpected external risks that may arise well beyond the boundaries in which the organisation operates. The most notable changes in the percentages of CAEs strongly agreeing are national government (up from 10% to 21%), provincial government (up from 5% to 23%), metro municipalities (up from 17% to 40%), district municipalities (up from 0% to 14%), local municipalities (up from 14% to 25%), publicly held companies (up from 16% to 48%), privately held companies (up from 18% to 47%), SMMEs (up from 12% to 28%) professional services firms (up from 20% to 46%).
The skills shortage in South Africa has been a long standing challenge across all sectors and has its roots in an inferior education system to which the majority of South Africans had been subjected. South Africa’s global competitiveness largely depends on the rate at which South Africans are upskilled. The slight increase in sentiment is therefore heartening, although a far cry from what is needed to make meaningful progress. The 28% of CAEs strongly agreeing that the organisation has suitable human resource capital to execute its strategy effectively and optimally, is a slightly better result than the 26% in 2016, but still a significant drop from 2015 when it was 46%.

Current contributions to the skills shortage include lack of access to quality education for the poor, an education system that is not attuned to the needs of industry and is not focused on creating a future-fit workforce.

Changes predicted for the future workforce may alleviate the challenges organisations face in the talent for war in an environment where there is a shortage of skills, but does not bode well for a South Africa that has vast numbers of unskilled or under-skilled people. Deseree Kokt, writing for the South African Times, says skills shortages that are on the increase will be a concern. Neck on neck in the categories where the second lowest percentage of CAEs strongly agree are on the questions whether the organisation has suitable human resource capital to execute its strategy effective and optimally (28% against 26% in 2016) and whether the organisation’s output/delivery is at optimal level given its resources (28% against 20% in 2016).

A new comer to the Performance dimension where there is significant room for improvement is the question on whether the leadership understands the role and mandate of internal audit, to enable it to execute its duties effectively only 41% strongly agree. The leadership understands the role and mandate of internal audit in the organisation, it is imperative that the leadership ensures that integrated thinking is integral in the decision making in the value creation process. This implies that organisations would be able to source talent from other parts of the world without having to deal with the hurdle of relocation costs.
Our key research findings are:

1. The Country Index increased by 3.4% in the past three years from a steady rating of 2.9 to a 3.0. This, however should not be perceived as an overall indication of a positive result and should not be an indication or perception that Corporate Governance in South Africa is indeed stable and not on the decline. It should rather be seen and noted that in certain dimensions and certain economic sectors Corporate Governance has indeed improved but in other sectors and dimensions the decline in governance ratings is a concern for South African organisations.

2. External Risk has seen the biggest improvement with Performance as a second most improved dimension. This is a positive shift towards a more forward thinking approach to Corporate Governance procedures and standards within organisations.

3. Notable is the decline in Assurance and Ethics ratings particularly around issues of leadership and setting the tone at the top for the entrenchment of ethical cultures in organisations.

4. Operational Risk has had a steady rating with the scoring remaining at 2.9 for the past three years. CAE’s are indicating that organisations are starting to prioritise risk management strategies.

5. Slight improvements were found in the leadership and compliance dimensions. This despite new areas having been brought into the leadership dimension.

6. The top 3 areas of focus indicated by the open ended question reveals that in their organisations, CAE’s are concerned about Financial Capital, Compliance with Regulations and Legislative changes, and Fraud and Corruption. This was also top of mind for the improvement of the profession. We take this as a positive outlook and view for the future sustainability of the profession.

The way forward

With South Africa being in a perfect storm of political uncertainty, an adverse economic climate, social unrest, credit ratings downgrades and increasing inequality, it is more urgent than ever that the leaders in organisations ensure that good governance principles are adhered to, chief among those is building an ethical culture. This of course means that internal auditors should be more vigilant and ensure that their audit plans are crafted to put the spotlight on the important issues that lead to well governed organisations.

King IV has now been through its first year of implementation. It is therefore expected that there would be a steady increase in the full adoption of all the principles and recommended practices across all industries. The Institute of Directors had taken a careful approach to ensure that all sectors were included in the process of drafting King IV and that its applicability would extend across the board, with no exceptions.

The CGI will therefore track the adoption of the principles through the views of CAEs on the state of governance in their organisations. The CGI therefore remains a valuable tool for organisations to benchmark themselves against as well as initiate meaningful conversations around the highlighted governance principles.
### LEADERSHIP (CONTINUED)

#### Questions

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Slightly disagree</th>
<th>Neither agree/disagree</th>
<th>Somewhat agree</th>
<th>Strongly agree</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>The composition, roles and responsibilities of your oversight / governing body and its committees are appropriate with minimal overlap and fragmentation of duties</td>
<td>5</td>
<td>4</td>
<td>39</td>
<td>47</td>
<td>0</td>
</tr>
<tr>
<td>There is effective collaboration among your organisation’s oversight committees</td>
<td>4</td>
<td>9</td>
<td>38</td>
<td>41</td>
<td>0</td>
</tr>
<tr>
<td>There is a balanced distribution of power among your organisation’s oversight committees</td>
<td>5</td>
<td>10</td>
<td>6</td>
<td>37</td>
<td>43</td>
</tr>
<tr>
<td>Your audit committee is effective in all the dimensions within the ambit of its responsibilities</td>
<td>5</td>
<td>7</td>
<td>4</td>
<td>30</td>
<td>54</td>
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</table>

### PERFORMACE

#### Questions

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<thead>
<tr>
<th>Strongly disagree</th>
<th>Slightly disagree</th>
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<th>Strongly agree</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your organisation’s executive team is functioning optimally in delivering against the strategy of the organisation</td>
<td>4</td>
<td>12</td>
<td>7</td>
<td>38</td>
<td>39</td>
</tr>
<tr>
<td>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</td>
<td>3</td>
<td>8</td>
<td>11</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>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</td>
<td>4</td>
<td>10</td>
<td>9</td>
<td>37</td>
<td>39</td>
</tr>
<tr>
<td>Your oversight / governing body ensures accountability of organisational performance through accurate reporting and disclosure to the organisation’s stakeholders</td>
<td>4</td>
<td>6</td>
<td>7</td>
<td>31</td>
<td>52</td>
</tr>
<tr>
<td>The Information Communication Technology (ICT) strategy is aligned to the strategic objectives of your organisation</td>
<td>8</td>
<td>11</td>
<td>11</td>
<td>36</td>
<td>33</td>
</tr>
<tr>
<td>Your organisation has suitable human resource capital to execute its strategy effectively and optimally</td>
<td>5</td>
<td>17</td>
<td>10</td>
<td>40</td>
<td>28</td>
</tr>
<tr>
<td>Your organisation’s human resource capital is optimally utilised</td>
<td>10</td>
<td>20</td>
<td>11</td>
<td>35</td>
<td>24</td>
</tr>
<tr>
<td>Your organisation utilises its financial capital optimally (i.e. managing finances) so as to achieve the best possible sustainable outcomes</td>
<td>6</td>
<td>11</td>
<td>8</td>
<td>34</td>
<td>40</td>
</tr>
<tr>
<td>Given its current resources your organisation’s output / delivery is at optimal level</td>
<td>6</td>
<td>12</td>
<td>16</td>
<td>35</td>
<td>30</td>
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<tr>
<td>The leadership ensures that integrated thinking is integral in the structures and processes that the organisation utilises in delivering its strategy</td>
<td>14</td>
<td>28</td>
<td>8</td>
<td>34</td>
<td>40</td>
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</tbody>
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### PERFORMANCE (CONTINUED)

#### Questions

<table>
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<th>Strongly disagree</th>
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<th>Neither agree/disagree</th>
<th>Somewhat agree</th>
<th>Strongly agree</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>The process for identifying and managing risks is adequate and aligned to your organisation’s strategic objectives</td>
<td>5</td>
<td>12</td>
<td>7</td>
<td>34</td>
<td>42</td>
</tr>
<tr>
<td>The leadership gives adequate attention to the opportunities, risks and disruptions associated with advances in technology and information</td>
<td>6</td>
<td>9</td>
<td>13</td>
<td>41</td>
<td>31</td>
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### EXTERNAL RISK

#### Questions

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<th>Somewhat agree</th>
<th>Strongly agree</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>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</td>
<td>6</td>
<td>11</td>
<td>10</td>
<td>40</td>
<td>31</td>
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### ASSURANCE

#### Questions

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<th>Neither agree/disagree</th>
<th>Somewhat agree</th>
<th>Strongly agree</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.).</td>
<td>5</td>
<td>8</td>
<td>7</td>
<td>41</td>
<td>40</td>
</tr>
<tr>
<td>Your organisation uses a combined assurance framework to provide a coordinated approach to assurance activities</td>
<td>8</td>
<td>11</td>
<td>10</td>
<td>33</td>
<td>37</td>
</tr>
<tr>
<td>Within your organisation, internal audit has a sufficient degree of independence to enable it to execute its duties without undue influence or interference</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>21</td>
<td>72</td>
</tr>
<tr>
<td>Within your organisation, internal audit has adequate resources to enable it to execute its duties effectively</td>
<td>10</td>
<td>13</td>
<td>5</td>
<td>30</td>
<td>41</td>
</tr>
</tbody>
</table>
The process of compiling the Corporate Governance Index is overseen by the IIA South Africa’s Policy Committee. We thank them for their tireless dedication to the project. They are:

- Paresh Lalla, (Chair)
- Dr Claudelle von Eck, CEO of the Institute
- Dr Christo Ackermann
- Andre Nortier
- Berenice Francis
- Joe Lesejane
- Karin Barac
- Phillip Ntsimane

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