

## **Speech by the Chairman of the Audit Committee of Public Works at the Conference on Fraud and corruption on 25 September 2007, Birchwood Hotel, Boksburg, Johannesburg**

Honourable Minister, Distinguished guests, ladies and gentlemen. It gives me great pleasure and honour to talk to you today during this conference. It is indeed a wonderful and a plausible idea to congregate in the manner in which we are doing today and deal with vital issues that are central to the growth and progress of our country

I want to talk about the role of DPW Audit Committee in monitoring good corporate governance in the department of Public works. I have been involved with the Audit Committee of Public Works since 2000 in my capacity then as the CFO and DDG and then in subsequent years as the Chairperson and in total the period of my involvement is about 7 years.

It is appropriate to address the following:

### **1. leadership commitment**

- a. senior management must buy into the imperative of creating and sustaining a culture of corporate governance within DPW and this means that, the issue of corporate governance must be integrated and woven into the fabric of how business is conducted within DPW
  - i. under the leadership of the DG, Mr Manye Moroka, we have seen this commitment as the audit committee at DPW and we have been quite pleased looking at the way in which the top leadership makes time and effort to attend the audit committee meetings
  - ii. we also get reports that the matters discussed with management by the audit committee are subsequently followed up and implemented by the senior management in the department
  - iii. we are therefore noting this good progress and I think going forward we would like to see a more robust and active engagement between management and the audit committee members
- b. financial resources must be marshaled and properly mobilized to ensure internal audit capacity is strengthened throughout DPW
  - i. the department has made good progress in developing its internal audit capacity and I am happy to report that this is one of the internal audit units that is functioning quite effectively despite some of the enormous challenges that are facing the department as a whole

- ii. sometimes I do get the sense and the impression that the line managers and the line functionaries do not provide the support and the commitment that this internal audit unit deserves and I am of the opinion that this is something that require urgent management attention
- c. a system of internal control is built and fully implemented
  - i. the department has developed a system of internal control and I am also aware of the various initiatives that management has embarked upon to bolster the effectiveness of this platform
  - ii. this is however a dynamic initiative and is constitute the backbone of a good corporate governance framework and must be resourced by a qualified and competent in house capability
  - iii. the greatest weakness facing DPW in building a sound internal control platform is the fact that most of its internal controls are manually operated and may therefore be easily be subjected to abuse and manipulation
  - iv. despite some of these challenges the internal control platform is operating satisfactorily
- d. senior leadership participation and contribution must be mandatory in all audit committee meetings
  - i. I have discussed this matter early on in this paper but I think it is worth emphasizing that at the end of the day for a good corporate governance to flourish and prosper it must be underpinned and anchored by an unequivocal and unwavering top leadership commitment
  - ii. I think going forward the audit committee will be spending a lot of time with management in evaluating its own implementation plans for risk management implementation and good corporate governance framework
- e. a culture of good corporate governance must be institutionalized through developing incentive systems that reward good corporate governance
  - i. this is one are that DPW needs to look into together with the Minister's office to begin to examine and implement ways that will instill and institutionalize a culture of good corporate governance and this may also be a function of a recruitment process, training, creating awareness as well as incentive programs
  - ii. DPW also need to develop ways of celebrating successful stories of good corporate governance achievements including trophies and cash incentives for good corporate governance successes

- f. a deep and an unequivocal commitment to good corporate must be anchored by incorporating good corporate governance compliance as a key performance indicator for all staff throughout DPW
  - i. a message of intolerance to violation of good corporate governance must be conveyed unequivocally and succinctly
  - ii. I think this is an area that DPW still needs to work on
  - iii. I think that cases being investigated take a long time and great opportunities are missed to convey to all staff management attitude and commitment to a good corporate governance environment
  - iv. I would propose that the incorporation of corporate governance as a key performance area must be introduced across the various levels in DPW and the reward system must be linked to this imperative

## **2. risk assessment framework**

- a. a risk assessment to be conducted that covers all aspects of the business ie
  - i. achievement or non achievement of the corporate strategy of DPW
    - 1. despite the DPW have not engaged the audit committee on the extent to which the department is progressing with the implementation of its corporate strategy and I am quite confident that this is something that will be happening going forward as this provides another focus for engaging management as the committee into a robust dialogue and debate
  - ii. risk of failure to deliver on the mandate of DPW
    - 1. this is not a matter that falls directly within the purview of the audit committee but as the committee we will certainly going to be interested in being apprised by management if they consider that there are risks that may impede the ability of DPW to deliver on its mandate
  - iii. compliance and non compliance with the PFMA and other relevant regulatory legislation
  - iv. risk of fraud and corruption
  - v. effectiveness and/or ineffectiveness of mitigating controls
  - vi. effectiveness and/or ineffectiveness of internal controls
  - vii. effectiveness/ineffectiveness of systems and mechanisms of budgeting methods
  - viii. effectiveness/ineffectiveness of early warning systems
  - ix. effectiveness/ineffectiveness of strategies and plans to retain and build strong corporate memory
  - x. effectiveness/ineffectiveness to retain senior leadership and key personnel within the DPW

- xi. adequacy/inadequacy of current delivery platforms for example the quality of IT infrastructure to deliver on the mandate of DPW
- b. the internal audit unit together with management has conducted a fairly extensive risk assessment exercise identifying the key risks facing the department
- c. flowing out of this exercise was the development and crafting of implementation plans to mitigate risks and effectively management them going forward
- d. the audit committee was taken on board in all of these initiatives but it is fair to say that these processes are not static and are very dynamic in nature and it may be worthwhile revisiting this exercise one again even if it is to confirm the validity of the key risks that have been identified or whether or not the rating thereof is still appropriate and also to determine if there are new risks that have emerged and can be adequately identified through a structured process such as this
- e. management must ensure that the risk management plan and its implementation is focused upon in all of its key meetings both at regional level and head office level and we would be keen as the committee to hear from management how well they are progressing on this matter

### **3. fraud prevention**

- a. The DG as the accounting officer to play the role of Chief Ethics Officer
  - i. This matter needs no further elaboration except to say that the DG is the custodian of the values of good corporate governance and the messages coming from his office in dealing with cases of fraud and violation of corporate governance
- b. Matters relating to non-compliance with good corporate governance must be dealt with decisively, appropriately and promptly
- c. A fraud prevention plan must be developed but there must be a very deliberate measures taken to ensure the all employees are familiar with the content of the plan. In other words the plan must be broken down into simple key messages that is communicated prominently throughout the organization and in all offices of the department and incentive systems must be developed and properly budgeted for to ensure that all employees are encouraged to ensure that the fraud prevention plan is effective
  - i. I am hoping that going forward management will interact more with the committee to enable the committee to gain an indepth understanding of how the fraud prevention plan is being implemented internally and more so at the regional offices

- ii. What is as yet unclear is how the breaches or areas of non compliance with the fraud implementation plan are identified and addressed
  - iii. An atmosphere must be established and harnessed where each employee of the department see themselves as Risk Officers and taking key responsibility for bringing risk under control
- d. Proper capacity must be strengthened to ensure that proactive measures are taken to deal with matters that may lead to fraud instead of an approach that is reactive and backward looking in focus, the investigative unit must have a customer centric mindset where employees are encouraged to be open to share risk concerns, worries and concerns and without feeling that they are being viewed with suspicion or they could be blackmailing their colleagues
  - i. An environment of trust and mutual commitment to the risk management must be inculcated and this must involve everyone who deals with DPW in terms of its clients, service providers and all stakeholders
- e. Fraud prevention must be integrated and woven into the way in which business is done at DPW and must become a standard and a standing item in all of the meetings of DPW both at head office and at all regional offices
- f. Processing time of fraud cases and investigations need to be speeded up and consideration can be given to using outside capacity possibly from the private sector

#### **4. conflict of interest**

- a. systems must be developed to deal with officials of the Department that are conflicted through having outside business interests or be linked to friends, relatives and family who have shareholding interests in service providers that are doing work for DPW
- b. Tender information must be managed tightly and securely to ensure that officials do not abuse information by giving certain tenderers information that may give them an unfair advantage or may be prejudicial to the department and/or other bidders
- c. IT system may be the most effective way of introducing effective management of conflict of interest particularly between regions and the head office as other department officials may be part of tender bids for other regions in the same department or be involved in tender bids in other government departments
- d. The issue of conflict of interest poses one of the greatest risk to perpetuate fraud and this is also one area that management has not come up with clear, deliberate and unequivocal plans to reduce and mitigate the risk to the business of the department going forward

#### **5. audit committee**

- a. the audit committee is responsible for providing oversight over the implementation of good corporate governance framework
  - i. the committee has not performed as much as it should as we need also to address the issue of poor attendance by some committee members thereby crippling the effectiveness of the work the committee is tasked to do and this matter has been raised with the DG
- b. members of the audit committee must be independent and yet be knowledgeable about the PFMA and must have sound business acumen and must be familiar with the business model of DPW and how DPW functions and/or operate
- c. the audit committee must take an active interest in the implementation of a risk management plan which also includes the fraud prevention plan
  - i. the committee take its work very serious and is please with the way in which management and the internal audit is engaging the committee on matters of fraud prevention and risk management.
  - ii. This is one area that remains under resourced in terms of the ability of the department in devising proactive ways of dealing with fraud and corruption instead of being reactive
- d. audit committee needs to pay attention in evaluating and assessing the top leadership commitment in the implementation of the good corporate governance framework
  - i. I am happy to report that leadership of the department takes the work of the audit committee very seriously and they are committed to work with the committee and in this regard I can single out the DG, CFO and CAE
  - ii. The major drawback facing the department in my view is the new top management team that may take a while to settle down and begin to assimilate all of the risk areas confronting and/or facing DPW
- e. the audit committee is also responsible for ensuring that a constructive and an active dialogue exist between the Auditor General and DPW to management
  - i. this one area that even though a co-operative atmosphere exist, I still believe that the potential in terms of the benefits that can be reaped has not been fully realized and optimized
- f. audit committee must play a pivotal role in ensuring that the internal audit unit is functional and effective
  - i. the internal audit unit is functioning quite effectively but the risk of limited capacity remains one issue that will always hamstring the continued effectiveness of this unit going forward and this is often a function of limited skills in market, uncompetitive remuneration packages in the public sector

- compared with the private sector for the kind of resources that are equally in demand even in the private sector
- ii. we as the committee have worked quite extensively with the internal audit unit under the capable leadership of the current CAE and have made good progress in approving the three year rolling internal audit plan based and informed by an elaborate risk assessment initiative
  - iii. we have also looked at strengthening the capacity of the internal audit unit by recommending co-sourcing arrangement with the private sector service providers and we think this kind of interventions has helped the internal audit unit to get traction in terms of its internal audit mandate implementation
- g. the audit committee must ensure that an audit committee charter is developed and approved
- i. we have developed a charter as the committee and this charter incorporates and codifies the kind of work and responsibilities that we have as the committee and to date we are quite pleased with the progress we are making despite the challenges along the way

## **6. internal audit**

- a. an internal audit functionary must be effective, properly resourced with adequate capacity to meet the requirements of implementing an effective risk management plan
  - i. I have discussed above the issue of the continuous resourcing of the internal audit unit to meet the growing business demands as well the changing and often stringent compliance requirements
- b. the internal audit is also responsible for evaluating the effectiveness/ or ineffectiveness of the internal control function and identifying shortcomings or weaknesses including areas that require improvement
  - i. the internal audit has done good work in rolling out and implementing its internal audit plan and as a consequence of that a number of internal audits has been implemented
  - ii. the record in terms of successes in implementing internal audit recommendations has been dismal particularly on the IT recommendations which poses the greatest areas of weaknesses in DPW
  - iii. this could be a function of limited IT resources in DPW or lack of management commitment to implement such recommendation
  - iv. I think it is worth embarking on an exercise to track the implementation of the internal audit recommendations and finding reasons why not all of such recommendations have not been implemented

- c. effective strategies must be developed and implemented that will ensure that a good quality crop of internal auditors is attracted and retained by DPW throughout its regions
- d. the internal audit functionary must take responsibility in ensuring that its reports are discussed at EXCO and other decision making structures in DPW and that proper action plans are developed with clearly defined timelines and clear lines of accountability
- e. the internal audit must have a three year rolling internal audit strategy that is aligned to the risk management plan
- f. the internal audit must be given sufficient budget to ensure that it carry out its function effectively
- g. the internal audit must also develop a robust internal audit charter

#### **7. monitoring financial performance**

- a. top management/executive leadership together with the audit committee must ensure that financial performance of DPW is monitored to identify areas of both under spending and/or over spending by programs and/or by regions
- b. the audit committee needs to evaluate how effective and committed management is in monitoring financial performance as this is another indicator in ensuring an effective roll out of the strategy of DPW as well as obtaining a good feel and a texture of how the mandate of DPW is being delivered
- c. a variance analysis and an exception report accompanied by action plan must be delivered by top management

#### **8. partnership with Auditor General**

- a. a relationship of trust must be nurtured, cultivated and harnessed between the DPW management and the office of Auditor General
- b. rotation of key staff members in the office of the AG must be managed effectively so as not to compromise or undermine the smooth flow of information and knowledge about their clients
- c. the auditor general must be taken seriously by all levels of officials at DPW and not only buy top management
- d. the AG need also to communicate its findings in a constructive manner and spirit that is engendered to foster a spirit of positive co-operation and partnership
- e. there is clear evidence that AG has fallen behind in implementing transformation in the teams responsible for executing field work and the making of key audit findings and decisions

#### **9. summary and conclusion**

- a. Weak, archaic, unintegrated IT infrastructure of DPW is probably the biggest Achilles Heel facing DPW( The IT Architecture is old and is often abuse by officials who bypass it as they are aware of the shortcomings/weakness particularly the business systems
- b. There is a tendency to see risk management and corporate governance as a financial management function and therefore only the CFO has oversight responsibility and accountability over such

matters. This thinking must change and the understanding of risk management and good corporate governance must be broadened and widespread to include all of the functional units in the department and must take responsibility and accountability for ushering in a sound risk management and good corporate governance framework

THANK YOU