Introduction

Nkonki believes that the oversight capability of Audit Committee members is critical to ensure that the standards of governance and corporate reporting in South Africa remains admirable. Through the Nkonki Audit Committee Support Centre, Nkonki issues regular Audit Committee Alerts that are geared to provide a watchful eye on behalf of Audit Committees and pass the information or insights gained to all Audit Committee members.

Audit Committee oversight responsibilities include financial management, performance management, external and internal audit, risk management, internal control, IT governance, combined assurance, appropriateness of the finance function and compliance with laws and other regulatory requirements. The responsibilities also come with challenges depending on the entity and the environment faced by members of the Audit Committee.

In order to allow Audit Committees in the public sector in particular to function effectively, solutions to the challenges these bodies currently face need to be addressed. These challenges are not unique to one type of public sector entity – they span across national and provincial department Audit Committees, as well as public entity Audit Committees.
About Nkonki

**More than 40 Directors and Partners with more than 400 professional staff**

**Global expertise, accessed through Kreston International from more than 20,000 professionals through 186 firms spread across 100 countries**

**Established January 1993**

**100% Black owned**

**51% Black women owned**

**JSE Accredited to audit JSE Listed companies**

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**Brand personality**

**Reliability** – We always have to be reliable to our clients, from our level of knowledge and insights through to our ability to deliver on time and exceed expectations. Our brand promise is delivered across all levels to promote the reliability of our brand.

**Responsiveness** – We are always responsive to our clients’ needs as this is viewed as the core of client service. We understand the client’s brief and the intended impact of our service. We are agile and capable of responding to unanticipated circumstances, additional client needs, or tighter deadlines.

**Ingenious**

**Inspirational**

**Insightful**

**Assurance** – We provide assurance in what we say, in what we do, and in the opinion we provide.

**Impactful**

**Tangibles** – Our people are trained to provide tangibles to ensure that all they bring to the clients’ attention are supported by tangible results.

**Integrity**

**Empathy** – We are always empathetic to our clients’ needs and are able to provide impact where it is intended the most and within the expected time.

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**Our competencies**

**Assurance**

- External Audit
- Internal Audit
- Forensic Services
- IT Audit
- Risk Advisory
- IT Advisory
- Compliance
- Sustainability
- Curatorship

**Advisory**

- Business Rescue
- Corporate Governance
- Process Engineering
- Secondments
- Integrated Reporting
- Fraud Risk Management

- Fraud Hotline Services
- Treasury Technical Services
- IFRS
- Taxation
The Top 20 Challenges Facing Public Sector Audit Committees

The challenges were garnered from public sector Audit Committee members who experience them “on the ground” so to say, as part of the feedback at the Nkonki 2015 Annual Audit Committee Conference for the Public Sector. The top 20 of these were then worked through with these members to identify workable solutions. The ultimate goal is to have solutions that derive the expected level of benefit, allowing committee members to have peace of mind that they have acted in a manner that enhanced their governance oversight.
<table>
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<tr>
<th>Challenge</th>
<th>Solution</th>
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| 1. Lack of or no evaluation of Audit Committee members by Executive Authority | • Annual performance reviews of members should be added to the Audit Committee Charter  
• The ultimate accountability lies with the relevant Executive Authority                                                                                                                   |
| 2. Inadequate Audit Committee agendas and unrealistic work plans          | • Annual work plans should be prepared and approved that are aligned to the Audit Committee Charter and terms of reference  
• Agenda’s should be extracted from the approved annual work plan. This will ensure the committees fulfil their responsibilities from the terms of reference and Charter  
• The Audit Committee should deal with agenda items at executive level and not in too much detail  
• Benchmarking and review of the Charter to ensure that the agenda is adequate                                                                                                        |
| 3. Poor quality of information, late submission to Audit Committee and lack of management assurance | • All documents submitted to the Audit Committee should be signed off by the relevant executive management. The Audit Committee members must clearly and explicitly define their information requirements and the assurance thereof by management  
• If the documents do not display executive management sign off, the Audit Committee should evaluate the basis and consider potentially rejecting the submission  
• If the documents submitted are late, the Audit Committee should evaluate the basis and consider potentially rejecting these  
• If the above continues the Audit Committee should report and discuss the matter with the relevant Executive Authority                                                                 |
| 4. Lack of competence and skill set of internal assurance providers to the Audit Committee | • Continuous professional development needs to be a key criteria and the achievement thereof should be reported to the Audit Committee  
• The Audit Committee should ensure that those employed are suitably qualified and have the experience required  
• The Audit Committee should provide support and guidance to internal assurance providers                                                                                               |
| 5. Lack of understanding of the department’s mandate                       | • Important to be inducted by executives into a department to get better understanding of its mandate  
• An intensive induction process should exist and the Audit Committee should be part of yearly strategic planning and risk sessions  
• Audit Committee members with the appropriate skill sets should be appointed                                                                                                             |
| 6. Lack of consequence management for poor performance and recurring findings | • It is important for Audit Committees to understand the reasons for non-implementation of audit recommendations  
• There must be a focused agenda item that deals with recurring findings or the non-implementation of audit recommendations  
• Special Audit Committee meetings must be convened to discuss the non-implementation of audit recommendations  
• Sometimes one may also find that the recommendations are not implementable due to the lack of understanding of the business  
• Audit Committees need to ensure that recommendations are not accepted if they are not implementable. Implementable recommendations must be identified and this assurance must be given by management                                                                 |
| 7. Hostile environment between Senior Executive and Audit Committee        | • Audit Committees should explain their mandate to the executive and establish good lines of communication  
• This is a continuous process and must not only be done once                                                                                                                                 |
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| 8. Inability to enforce decisions due to outside pressure | • Audit Committees must ensure they are independent in their decision making  
• They should seek to ensure they clarify their role with the Executive Authority  
• If all else fails, then rotation or resignations could be an option |
| 9. Lack of skill set and independence on the Audit Committee | • Assessment of individual members |
| 10. Oversight role versus interference in operations | • Reports to Audit Committees should be at executive level and not operational, ensuring that discussions will be at executive level  
• The Audit Committee Charter should be specific on the skills set and this should be aligned to the number of members  
• To be more involved in the appointment of the Chief Audit Executive  
• Training for Audit Committee members and staff on their roles and recommendations  
• Audit Committees should get operationally involved if the department's or entity's skills set are low. This is normally a root cause of operational involvement – the lack of skills at operational level  
• Appointment of an appropriate secretariat to manage minutes and provide advice to the Audit Committee |
| 11. Shared Audit Committees between departments with different mandates | • Get the right skill mix of Audit Committee members  
• Sufficient time should be allocated for each department |
| 12. No formal risk management in departments and excluding risk responsibilities from Audit Committee | • Coordination with Internal Audit on combined assurance  
• Responsibility for risk should be included in all managers' key performance indicators  
• Must have a Chief Risk Officer to embed risk culture in organisation  
• Risk champions from divisions report to the Chief Risk Officer  
• Risk management a standing item on the agenda  
• Chief Risk Officer to provide assurance to the Audit Committee on the extent to which the risks are mitigated  
• If there is a separate Risk Committee, it should be chaired by an independent person. There should then be an Audit Committee member on the Risk Committee for feedback purposes |
| 13. Lack of understanding of a combined assurance matrix | • Training for Audit Committees and all stakeholders, including management  
• Allocate responsibility for combined assurance to Chief Audit Executive or Chief Risk Officer |
| 14. Lack of a mature IT environment and IT skills | • A basic training course on IT should be provided to the Audit Committee members  
• Audit Committee members should ensure they gain the knowledge of the legislative requirements around IT  
• Where the Audit Committee does not have a person with IT skill this should be escalated to the Executive Authority. Potentially an IT specialist should be engaged to sit in the Audit Committee via invitation to bring valuable IT insight and perspective for the committee |
| 15. Not enough attention is given to non-financial aspects such as performance information | • Have a monitoring and evaluation team attend Audit Committee meetings  
• Internal Audit should be utilised to provide assurance on the non-financial information  
• Director General to sign off and Audit Committee to review before submission to Executive Authority |
## Challenges and Solutions

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<td>16. Political authorities lack of understanding of Audit Committee</td>
<td>• Continuous communication to political authorities about how governance is key, with the</td>
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<tr>
<td>responsibilities</td>
<td>core values being independence and objectivity</td>
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<td></td>
<td>• The Audit Committee should engage the authorities to ensure they understand the terms of</td>
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<td>reference, followed up by an interaction to present the result of the annual assessment of the</td>
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<td>Audit Committee allowing it to display its effectiveness</td>
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<td>17. Irregular attendance of meetings by Audit Committee members due to</td>
<td>• Limit the number of committees to which one member can be appointed</td>
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<td>over-committed Committee members</td>
<td>• Escalate to Executive Authority if this continues</td>
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<td>• Appoint subject matter experts if there is lack of attendance by key members</td>
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<td>18. Lack of continuity at Audit Committee level and loss of intellectual</td>
<td>• Staggered rotation of Audit Committee members</td>
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<td>capital due to committee members being retired all at once</td>
<td>• Comprehensive induction should be given to incoming Audit Committee members provided</td>
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<td></td>
<td>by Chief Financial Officer, Internal Audit, Risk and Human Resources</td>
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<td></td>
<td>• Proper documentation management of previous meetings and minutes to be transferred to</td>
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<td>the new Audit Committee, allowing sufficient time for them to go through the details</td>
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<td>19. Inability of Audit Committee to take and enforce their own resolutions</td>
<td>• Engage the Executive Authority for support</td>
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<td></td>
<td>• Relationship building with management</td>
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<td></td>
<td>• Tracking of resolution enforcement</td>
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<td>• Consequence management, by considering reporting in the Audit Committee Report on</td>
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<td>relationship with management</td>
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<td>20. Independence and seniority of the Chief Audit Executive within the</td>
<td>• The Audit Committee should be part of the recruitment process of the Chief Audit Executive</td>
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<td>department</td>
<td>• The Audit Committee should recommend benchmarking of Chief Audit Executive posts</td>
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<td>• The Audit Committee should recommend differing Internal Audit models, e.g. shared to assist</td>
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<td>with independence</td>
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<td>• The Audit Committee should have mandate to appoint, evaluate the performance of and</td>
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<td>dismiss Chief Audit Executive</td>
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