

Part 4
Governance



4.1 INTRODUCTION

The National Treasury Guide on Risk Management Framework and the Institute of Risk Management Standards are the primary guidelines used in ensuring day-to-day application of Enterprise Risk Management at the Department of Arts and Culture. The Department adopts a combined risk management approach (top-down and bottom-up) in identifying, measuring and reporting on risks. Risk mitigation is applied to the residual risk exposure of the Department and monitored quarterly, and communicated to management, the Risk Committee and the Audit Committee.

4.2 RISK MANAGEMENT

The Department of Arts and Culture has an approved Risk Management Framework; and a risk management policy which articulates the processes creating risk capability at an operational function. The policies are reviewed on an annual basis and communicated broadly within the Department.

4.2.1 Annual Risk Assessments

The Department conducted its annual risk assessments during the strategic planning phase with the aim of curbing the disconnect between the Department's adopted strategy and its risk landscape. The risk assessments considered the Arts, Culture and Heritage Sector's goals and the prevailing internal and external environment during the creation of the risk assessment process.

4.2.2 Risk Committee

The Department has a fully functional and operational Risk Committee chaired by an independent non-executive member. The Risk Committee Chairperson reported to the Audit Committee on risk management outcomes and the Risk Committee's performance. The Committee comprises of executive and senior management, including select managers responsible for key business functions, namely Supply Chain Management, Information Communications and Technology, Occupational Safety and Health, and Legal Services.

The Risk Committee operates on a three-tier level of combined assurance on operational matters and has met four times during the 2014/15 financial year. The overarching monitoring responsibilities are summarised below:

- **Risk Committee members** advise the Accounting Officer on cross cutting-risks of the Department relating to employees, contractual matters, expenditure (wasteful/irregular/unauthorised), legal matters, technology and core business risks.
- **Chief Risk Officer** advises the Risk Committee on the risk mitigation outcomes, both at operational and strategic level, on a quarterly basis, including risk incident trends on a residual level for Security, Occupational Health and Safety, losses and theft of assets, and the status of fraud allegations reported and referred to the Accounting Officer and Internal Audit for further investigation and reporting.
- **Internal Audit** advises the Risk Committee on all post-audit risk outcomes for audited business activity areas. Further assurance was provided quarterly on performance, financial and forensic audit outcomes throughout the year.

4.3 FRAUD AND CORRUPTION

The Department has an approved Fraud Policy and Fraud Prevention Strategy, which is rolled out through the Fraud Prevention Implementation Plan, as endorsed by both the Risk and Audit Committee and approved by the Accounting Officer

4.3.1 Reporting of fraud

The Department utilises the National Anti-Corruption Hotline (NACH) which is managed by the Public Service Commission, and also receives allegations from the Presidential Hotline as they arise. Internal processes allow for walk-in fraud allegations including e-mail or written allegations which are received and referred to the Accounting Officer for further action.

4.3.2 Resolution of Fraud Allegation

All allegations of fraud, corruption and financial misconduct received through the Risk Management Directorate are forwarded in writing to the Accounting Officer and the Chief Audit Executive for resolution. Upon receipt of the allegations, Internal Audit's Forensic sub-directorate registers the allegations and performs an assessment to determine the investigation approach, which amongst others determine whether they will be performed in-house or through external service providers.

Allegations received as well as their status of resolution are reported to the Accounting Officer and the Audit Committee for their oversight through closed meetings. Further to the above concluded investigations are communicated to the Accounting Officer and Directorate Risk Management for noting and reporting to relevant external stakeholders, i.e. National Anti-Corruption Hotline (NACH) which is managed by the Public Service Commission, the Presidential Hotline (for allegations received via the Presidential Hotline) and to Executive/Senior Manager(s) responsible for the implementation for the recommendations.

The Accounting Officer and Audit Committee provided oversight on allegations of fraud, corruption and misconduct reported to the Department, and is satisfied that the allegations are receiving attention. The Committee has noted seven (7) allegations for the year under review with the status as follows:

- 2 cases have been concluded;
- 1 case was reported to the SAPS.
- 1 case is at reporting stage; and
- 3 cases are in the process of investigation, i.e. fieldwork.

4.4 MINIMISING CONFLICT OF INTEREST

4.4.1 Ethics and Integrity Programme

The Department of Arts and Culture in compliance to Section 3 of the Public Service Act, 1994, ensures that its Ethics and Integrity Programme reports on the financial disclosures for all designated officials, including the disclosure of gifts, and the declaration of interest in their capacity in the public sector. Reporting is facilitated on a monthly and quarterly basis to management and to the oversight Committees respectively.

4.4.2 Remunerative Work outside the Public Sector

The Department facilitates on an on-going basis, through its Ethics and Integrity Programme; the annual approval for remunerative work by the Executive Authority for all officials, in line with Section 30 of the Public Service Act, 1994 (Proclamation 101 of 1994).

4.4.3 Supply Chain Management Officials Financial Disclosures

Officials who participate in Supply Chain Management processes are required to disclose their interests in business enterprises that bid for the provision of goods/services to the Department. The declarations are registered and filed for audit purposes. Undeclared conflict of interest will, when detected, lead to the bid not being awarded to the enterprise in which an official has interest.

In terms of the standard SBD documents, bidders are required to submit a declaration whether their close family member/ partner/ associate are in the employ of the state. The conflict of interest thus disclosed will be kept in a register for audit purposes.

If departmental officials or their close family members/partners/associates of the bidder, director or shareholder has a business interest in an enterprise that has submitted a bid to the department, the official is required to disclose his/her interest and withdraw from participating in the process.

Non-adherence to the conflict of interest disclosure requirements will lead to irregular expenditure being incurred by the department. The irregular expenditure will then be reported to National Treasury and be dealt with in terms of section 16A of the Treasury Regulations. Disciplinary measures are instituted against officials who do not comply with the disclosure requirements

4.5 CODE OF CONDUCT

All employees of the Department are subject to the provisions of the Public Service Regulations; therefore, the Code of Conduct for the Public Service, contained in Chapter 2 of the Regulations, applies in this instance. Upon assumption of duty in the Department all employees are provided with a copy of the Code of Conduct as well as an explanatory manual for the Code. The expected behaviour of employees

is confirmed in all six the Department's values, namely accountability, integrity, results-driven, professionalism, humility and Batho Pele.

It is the responsibility of each and every employee to ensure that he/she complies with the provisions of the Code of Conduct and managers are required to monitor compliance and to take appropriate action where necessary. In an event where an employee breaches the provisions of the Code of Conduct, he/she may be dealt with in terms of the Disciplinary Code and Procedure.

4.6 HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

The Occupational Health and Safety Act, 1993 (Act No. 85 of 1993) ("OHS Act"), section 8, requires an employer/department to provide and maintain as far as reasonable and practical a work environment that is safe and without risk to the health of employees. This means the employer must ensure that the workplace is safe and free of hazardous ergonomics, substances and microorganisms etc., which may adversely affect the well-being of employees resulting to occupational injuries or diseases. Where this is not possible, the employer, in accordance to the requirement of section 13 of the OHS Act, has to inform the employees of risks and dangers and how these may be prevented.

The Occupational Health and Safety programme, therefore, continuously strives to assist the employer and employees to comply with the requirements of the OHS Act.

The Department has an approved health and safety policy since July 2013, as per the requirements of section 7 of the OHS Act. The main purpose of the policy is to establish minimum standards and requirements of occupational health and safety for the Department of Arts and Culture's employees, contractors and visitors on site by:

- firstly - identifying occupational hazards and possible risks causing incidents;
- secondly - setting standards of practice, procedures and accountability; and
- thirdly - correcting deficiencies, deviations from set standards and procedures to be followed.

All these measures help in creating and maintaining a healthy and safe work environment.

The departmental occupational health and safety (OHS) policy will be reviewed every 24 months from the date it was approved. The OHS policy is currently being reviewed. The purpose of periodically reviewing the policy it is to ensure that continuous improvement is maintained.

The health and safety plan was approved for the 2014/2015 year. The plan outlines the operational directives for implementing the departmental OHS policy which emanates from the OHS Act.

The Department has occupational health and safety representatives who were nominated as per the section 17 directive of the OHS Act and designated in writing by the Director-General. The SHE Reps play an important role in assisting to create a safe and healthy working environment. They were equipped with training, i.e. basic SHE Rep functions, first aid and fire fighting, to enable them to be able to fulfil their duties as SHE Reps. The SHE Reps also serve as contingency officials during building evacuation.

The departmental health and safety programme has conducted OHS awareness on various issues in order to ensure that employees are fully aware of how to fulfil the legal mandatory requirements which is prescribed by section 14 of the OHS Act.

Two forms of regular inspections were conducted: (a) formal inspections once a month using an OHS inspection checklist, which caters for the requirements of Department of Labour OHS inspection, and (b) informal inspections in the form of a walkthrough survey at least once a week. Issues identified during inspections that require corrective actions are dealt with internally or externally.

The challenge experienced by the departmental occupational health and safety program is the delayed response from external stake holders who are responsible for implementing the corrective action. The main external stake holders are building owners (Public Investment Corporation) and Department of Public Works.

Quarterly OHS meetings took place. These meetings served as an important platform where health and safety representatives raised health and safety challenges within an occupational environment and came up with solutions to those challenges.

The Department was able to conduct bi-annual emergency evacuation drills as required by municipal by-laws.

4.7 INTERNAL AUDIT AND AUDIT COMMITTEES

a. Internal Audit

The objective of the Internal Audit Activity in the Department is to provide an effective, independent objective assurance and consulting activity designed to add value and improve the Department's operations.

It achieves this by evaluating and improving the effectiveness of risk management, control and governance processes; and facilitates the full functioning of the Audit Committee in the Department.

The Internal Audit Activity operated in terms of its approved Charter and its scope of work was derived from the approved Risk-Based Three Year Strategic and Annual Operational Plans approved by the Audit Committee for the 2014/2015 financial year.

Internal Audit Reviews were performed in accordance with the approved Internal Audit Annual Operational Plan for the year under review; and reports with findings, recommendations for improvement(s), and management action plans were issued to Management for implementing corrective action, and to the Risk Committee of the Department to note further risk exposures, inadequate mitigation and to update the risk profile of the Department. The Internal Audit Reports were also communicated and tabled to the Audit Committee as required in terms of Legislation and the Internal Audit Charter for monitoring and oversight, in effort to improve the governance, operations and performance of the Department.

Follow up audits were also conducted during the year in some prioritised business areas, the aim being to review management's responses and action plans to control weaknesses communicated in previous Internal Audit and Auditor-General Reports; to evaluate and determine the adequacy, effectiveness and improvements to internal controls.

b. Audit Committee

The Department had a fully functional Audit Committee appointed in terms of section 38 (1) (a) (ii) of the Public Finance Management Act, 1999 (Act 1 of 1999) and Treasury Regulation 3.1, and operated in accordance with the aforementioned regulations including the provisos prescribed in terms of sections 76 (4) (d) and 77.

The primary purpose of the Audit Committee is to assist the Accounting Officer of the Department in fulfilling his responsibilities to ensure that the Department has and maintains effective, efficient and transparent systems of financial, risk management, governance, and internal control by providing oversight as follows:

- i. supporting management in respect of financial reporting, systems of internal control and performance against pre-determined objectives;
- ii. enhancing business ethics and trust in the Department;
- iii. ensuring and enhancing the independence of the Internal Audit Activity;
- iv. reviewing the strategic and operational risk areas of the Department to be covered in the scope of Internal and External audits;
- v. ensuring the proper functioning of both the Internal and External audit process, and other assurance services, including Fraud and Corruption Investigation Activities.
- vi. monitoring compliance with Laws and Regulations and the Code of Conduct.

The Audit Committee was fully functional and comprised of four members as at 31 March 2015; three employed from the private sector, and one employed from within a state-owned entity. The membership status changed in May 2014 with the appointment of two new members.

The membership and attendance is outlined below:

Name	Employer	Qualifications	Designation	Date of Appointment	End of Term	No of Meetings Attended
Mr T Mageza	Self employed	<ul style="list-style-type: none"> B.Comm (Accounting and Economics); MBL Degree Diploma in Management Training Programme 	Acting Chairperson	26 Sept. 2011 (2nd Term)	26 Sept. 2014	4
Mr WE Huma	Self employed	<ul style="list-style-type: none"> BProc (Bachelor's Degree) LLM (Master of Laws) LLB. (Bachelor of Laws) (Post-Graduate Degree) LLD (Doctor of Laws). Course work and oral examination passed cum laude; Thesis outstanding. Visiting research student - Research for the Doctor of Laws Degree Graduate Diploma in Company Direction (Corporate Governance) Financial Management (Finance for non-financial managers) Various certificates of attendance in human capital and change management. Advocate of the High Court of South Africa Fellow of the Institute of Directors of Southern Africa (IODSA) 	Member Chairperson	14 May 2014 (20 May 2015)	31 May 2017	8
Ms K Rapoo	South African Post Office	<ul style="list-style-type: none"> Executive Development Programme; Project Management; Advanced Project Management. 	Member DAC Risk Management Committee Chairperson	1 May 2013 (2nd Term)	31 Aug. 2016	8
Ms F Mdanda	Pfizer Laboratories	<ul style="list-style-type: none"> MBA Hons BCom (Auditing) B Compt; 	Member	1 Sept. 2014 (2nd Term)	31 Aug. 2017	8
Mr MAE Amod	Self employed	<ul style="list-style-type: none"> MBA B. Comm Degree Certified Internal Auditor Certified Government Auditing Professional Certification in Risk Management Assurance 	Member	14 May 2014	31 May 2017	8

The Audit Committee met on 11 occasions, of which 9 were Audit Committee meetings with DAC Executive Management and external auditors (AGSA), and 2 were between the Committee, the Accounting Officer and Executive Authority/Minister during the financial year for the execution of its oversight responsibilities in line with the approved Charter. Of the nine Committee meetings held, four were ordinary meetings while five were special meetings.

The special meetings were held for the purpose of providing oversight and monitoring of the Management Action Plan to address the qualification and emphasis matters raised by the AGSA in the 2013/14 financial year.

4.8 REPORT OF AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2015.

a. Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 38(1)(a)(ii) of the Public Finance Management Act, 1999 (Act No. 1 of 1999), and Treasury Regulation 3.1. The Committee further reports that it has adopted appropriate formal Terms of Reference as its Audit Committee Charter, and has regulated its affairs in compliance with this Charter, and has discharged all its responsibilities as contained therein.

b. Effectiveness of Internal Controls

Internal Control is a cost effective process effected by the Senior Management of the Department, designed to provide reasonable assurance regarding the achievement of its objectives in categories of effectiveness and efficiency of operations, financial reporting, compliance to applicable Laws and Regulations and Policies and Procedures.

In line with the PFMA and Treasury Regulation requirements, the Audit Committee provided oversight on business areas in the Department. This was achieved through the Internal Audit reviews as prioritised in the Internal Audit Operational Plan approved by the Audit Committee from the Risk Assessment Reports developed and adopted in the Department. The Internal Audit Activity provided the Audit Committee and Management with assurance on the existence of internal controls; their appropriateness and effectiveness, and recommendations where weaknesses and deficiencies were noted in line with the Internal Audit Operational Plan.

c. Internal Audit

From the various reports submitted by the Department's Internal Auditors, there are clear indications that although the systems of internal control were adequate in most instances, they were not effective. Certain matters reported on, indicated internal control deficiencies and deviations from business rules and delays in either implementing the corrective actions or ensuring accountability. Also noted by the Committee are the recurring deficiencies from prior years.

Matters of serious concern to the Committee were as follows:

- **Policies and procedures** - Instances wherein the periodic review and approval of certain policies and procedures was delayed and was also recurring, i.e. IT Disaster Recovery and Business Continuity, Supply Chain Management Procurement Policy, Asset Management Policy, and Back up Policy;
- Instances of non-compliance to policies and procedures by employees which give rise to irregular, unauthorised, fruitless and wasteful expenditure;
- The management of irregular expenditure, i.e. identification and resolution process;
- **Performance information** - maintenance of sufficient reliable verification sources;
- Unsatisfactory IT general controls;
- Delays and or challenges with the timely development of quarterly/interim and annual financial statements;
- Delayed implementation of management action plans to improve internal controls and performance, as well as decisive consequence management;
- Some deficiencies noted within SCM, procurement and contract management;
- Delays in the relocation of the Department to new premises;
- Filling of vacancies in general.

The above issues are recurring, and or delayed in implementation. The Committee has communicated its discomfort with regard to the non-implementation as well as the non-enforcement of accountability by responsible managers/employees.

Proper planning has also been identified as a cause for most of the deficiencies and has also been re-emphasised as an area that the Department is yet to improve upon.

The Committee monitored the improvement and turnaround of the internal control environment as well as the external audit outcome through oversight of the Management Outcome Implementation Action Plan. It has observed that although some improvements were made they would not have much impact on the 2014/15 financial year as a result of delayed implementation, e.g. approval of policies. Special audit committees held during the year to assist management with the implementation strategies for improved reporting of performance information and also periodic financial statements, i.e. quarterly, half-yearly and annually.

The Committee is satisfied that the Internal Audit Activity addressed the risks pertinent to the Department in its audits and consulting exercises, and that resulting reported conclusions were independent and in full compliance with the approved Internal Audit Charter and Treasury Regulations. Nevertheless, the Committee considers the Internal Audit Activity to be under-resourced in order to function optimally to maximise its coverage, given its current resources and budget to cover all critical risks prioritised in its plan, as there is insufficient permanent capacity which is currently supplemented by a co-sourced Internal Audit Service Provider.

d. Summary of main activities undertaken by the Audit Committee during the financial year under review

Apart from the areas covered in this Report, the Committee has played an active oversight role in the Department's most challenging areas, and has recommended the following which is still receiving attention in the Department:

- Quarterly independent assurance reviews by Internal Audit on the performance information of the Department and reporting to management and the Audit Committee; and monthly monitoring of performance information internally by management;
- Development of quarterly financial statements and independent assurance review by Internal Audit and reporting to management and the Audit Committee for oversight;
- ICT Governance and HR Governance to be reviewed quarterly;
- Enforcement of accountability and reporting to the Audit Committee;
- Implementation of the Supply Chain Management Turn-Around Strategy and action plan to improve the SCM internal control and compliance environment;
- Enhancing the permanent capacity of the Internal Audit Activity using a phased-in approach;
- Integrated assurance which will be monitored by Monitoring and Evaluation, Risk Committee and Audit Committee.
- Monitoring of the Audit Steering Committee's responsibilities and its effectiveness, which has not been fully operational in the previous year, to address audit findings from the AGSA and other internal control matters.

Management of the Department has agreed to the recommendations and is committed to implementing them so as to realise improvements and compliance.

e. The quality of in-year monitoring and monthly/quarterly reports submitted in terms of Legislation

The Department has reported monthly and quarterly to the National Treasury as required by the PFMA.

f. Risk Management

The Department has a Risk Management function in place in accordance with the requirements of the Treasury Regulations and the King III Report on Corporate Governance; as well as a Risk Management Framework, which provides for the Risk Strategy and policies to be reviewed on an annual basis, and subjected to the Risk Committee's adoption and the Accounting Officer's approval. A fully functional Risk Committee Chaired by an Independent Non-Executive member is in existence. The Risk Committee Chairperson reports to the Audit Committee on Risk Management outcomes, and issues an Annual Report on its performance.

During the year under review, a risk assessment was conducted and the strategic risks were adopted by Management, Risk Committee and the Audit Committee, the identified risks also informed the Internal Audit priorities. A top down approach was adopted in dealing with risk exposures, and periodic monitoring and evaluation, as well as the reporting of the status of risk mitigation occurred quarterly. Continuous tracking of the planned mitigation yielded some positive results, however, the following areas still remained a concern to the Audit Committee:

- The delayed finalisation of key critical regulation required to guide the Sector and enhance the Department's mandate remains a pervasive strategic risk.
- The lack of integration during planning of key critical resource requirements (financial and human resources) in support of the Department's adopted strategy has led to an overstretched compensation budget.
- Non-compliance to prescripts has led to historical and current irregular expenditure. However, the current leadership has put in place structures to monitor and apply consequence management at the highest level.

- Business Continuity Management - no visible progress in reviewing the current Business Continuity Framework.
- Relocation of business premises (Department of Arts and Culture) - plans were initiated and subsequently put on hold. The Risk Committee provided recommendations regarding the contractual governance of the project, where key risk exposure over the financial and compliance requirements had to be reviewed.
- Supply Chain Management - Up-skilling on key activities within the value chain of the unit was applied through the appointment of contracted service providers. Key risk exposures regarding contract management, compliance requirements, demand and acquisition management have been minimised and alternative mitigation strategies are being continuously applied.

g. Forensic Investigations

The Committee provided oversight on allegations of fraud, corruption and financial misconduct reported to the Department, and is satisfied that the allegations are receiving attention. The Committee has noted a total of seven (7) allegations received in the 2014/15 financial year that related to the Department.

h. Evaluation of Financial Statements

The Audit Committee has:

- reported that, although it did not have sufficient and or reasonable time to review the audited annual financial statements of the Department as they were delivered late by the Department, the Committee discussed the audited annual financial statements together with the annual performance report and raised its concerns;
- reviewed the Auditor-General's final audit report and management report and management's response thereto;
- reviewed any changes in accounting policies and practices;
- reviewed the Department's compliance with certain legal and regulatory provisions in so far as they related to risks, audits and other related identified matters;
- reviewed the information on predetermined objectives to be included in the annual report; and
- reviewed any significant adjustments resulting from the audit.

The Audit Committee concurs with the Auditor-General's conclusions on the Annual Financial Statements.

i. Auditor-General's Report

We have reviewed the Department's implementation plan for audit issues raised in the previous year (2013/2014) and we are satisfied that the matters have been adequately resolved except for the following:

- Supply Chain Management - significant internal control deficiencies in the procurement process; and concerns with regard to SCM Contract Management;
- Performance information (Predetermined Objectives):
 - Targets not meeting the specific criteria and annual targets that do not meet the measurability criteria were identified.
 - Maintenance of verification sources and late submission and or, submission of unsigned Quarterly Performance Reports by the Department.
- Human Resources Management – vacancy management, i.e. timely filling of vacant positions;
- Irregular Expenditure Management and accountability measures still not yet addressed.
- Business Continuity and Disaster Recovery Plans not yet reviewed/in place.

The Audit Committee has met with the Auditor-General South Africa to ensure that there are no unresolved issues.

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the audited Annual Financial Statements and is of the opinion that the audited Annual Financial Statements be accepted and read together with the report of the Auditor-General.



CHAIRPERSON OF THE AUDIT COMMITTEE

3 SEPTEMBER 2015

