

COMPLIANCE

Lucky number 13

Francois de Villiers from Auditlink takes a look at strategies for good governance.

Good governance expectations have raised the profile and responsibility of internal auditors who now take on responsibilities and consulting roles requiring additional competencies. Large and small companies can incorporate the following 13 strategies or absolutes for complying with the King III Code on Corporate Governance into their corporate guidelines.

ABSOLUTE 1
Risk management

All organisations need to develop a risk management solution in which hazards, risks and controls are identified, assessed, monitored, transferred, mitigated and insured against. Contingency plans also need to be documented formally. Risk assessment should be an ongoing process and international guidelines can be used to facilitate this.

ABSOLUTE 2
Risk-based audits

The internal audit function evaluates the effectiveness of controls pertaining to high-risk areas identified in the risk profile. The audit focus is the identification of control weaknesses, incorporating suggested improvements, but does not replace the risk management responsibilities of all employees within an organisation.

ABSOLUTE 3
Status of financial records

Financial records should be reliable, accurate, valid and complete. Stakeholders should ensure that an independent review is conducted to verify that sufficient financial controls exist over assets, liabilities, revenue and expenditure. An internal audit of costing aspects should investigate the reliability of management reports used for decision-making.

ABSOLUTE 4
Prevention of fraud or theft

Fraud or theft may be discovered or prevented by regular stock reconciliations, cash checks, asset verifications, tariff inspections, purchasing analyses, contract audits, payroll

investigation, cost tracking and identifying whether assets are misused. Organisations should develop a fraud and theft prevention strategy that includes a code of conduct and other procedures. Data-mining techniques can also be used.

ABSOLUTE 5
Security

Security policies should include the following: police and security service performance levels, building and parameter safety, movement of vehicles, power supply and lighting, access and lock-up control, alarm functioning, guard and security management, employee and visitor movement, proprietary information and fire warning.

ABSOLUTE 6
IT governance

Technology infrastructure is the backbone of any organisation. Automated information processing systems should be assessed and evaluations should include input, output and processing controls, backup and recovery plans, system security and effectiveness of computer facilities.

ABSOLUTE 7
Contingency planning

Unexpected, adverse events can have disastrous consequences and organisations should regularly evaluate and determine whether contingency plans and strategies are adequate and up to date.

ABSOLUTE 8
Compliance programme

Non-compliance can be accidental or deliberate, and compliance programmes should compare laws and regulations with current practices, processes and systems. Courts may take into consideration the existence of a compliance programme when imposing penalties and fines for breaches.

ABSOLUTE 9
Control framework

Control frameworks that illustrate objectives

and associated risks, and provide guidance and foster awareness in terms of management control activities, provide a formal roadmap for achieving key objectives.

ABSOLUTE 10
Benchmarking

Benchmarking (and conducting gap analyses) to international best practice standards involves independent interviews with management teams and assessments of current management systems.

ABSOLUTE 11
Performance management system and performance appraisal auditing

Proper performance measurement targets need to be established. Independent reviews of the performance management and appraisal system will provide assurance and create performance awareness, achieve best practice results and effect an overall improvement in performance, efficiency and effectiveness.

ABSOLUTE 12
Quality management

Organisations should foster a culture of prevention and 'doing it right the first time'. Introducing a total quality management system, like ISO, is advised.

ABSOLUTE 13
Independent committees

Organisations should establish independent committees (audit, risk, quality, etc.) and establish effective follow-up systems that ensure that reported issues are resolved.

Committees must report critical issues to stakeholders for their attention and resolution. **35**



About the author

Francois de Villiers is a managing member of Auditlink and is responsible for business development CMO and Symbiant.