

# ENHANCED GOVERNANCE COMMITTEES IN SOUTH AFRICA'S NATIONAL GOVERNMENT DEPARTMENTS: A CONCEPTUAL EXPLORATION

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## **Abstract**

This paper argues that almost all other non-governmental institutions for instance banks and pension funds, in addition to the risk and audit committees, have credit committees in respect of banks and investment committees in respect of pension funds. These committees provide oversight on the core businesses of these institutions. In a similar manner, national government departments should not only have universal governance committees such as the audit and risk committees, instead the study envisions governance committees modelled around the idea parliamentary portfolio committees. The envisaged committees will remain governance committees with defined roles and responsibilities similar to the audit and risk committees that are already in existence in the national government departments.

**Keywords:** Committees, Departments, Governance, Oversight, Public Sector and South Africa

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## **1 Introduction**

Verdeyen and Van Buggenhout (2003) argued that by origin, "governance" as a term was never a public service term by origin. Accordingly, this term can be traced back from the company law, signifying that it was meant to be applicable to businesses (companies) than the public sector, hence the use of the term "corporate governance".

The idea that corporate governance originated purely for the purpose of enhancing or fortifying rules and principles of company direction and the imposition of stricter checks and balances to curb or alleviate malpractices or wrongdoings by those engaged in corporate decision-making (Mongalo, 2003) is supported by Berle and Means (1932) in their description of the origins of corporate governance where it is stated that corporate governance ascended in response to the separation of ownership and control, following the formation of common stock companies.

As has indicated earlier that governance emanated from the formation of common stock companies, in democratic states worldwide; democratic governments have adopted these principles to guide the public service by enacting acts and regulations aimed at promoting good governance. It has become common that the adopted principles of governance aim at putting the legitimate societal aspirations and interest first.

The interest of society is served amongst other things through the fair allocation (redistribution) of resources, provision of basic services, political stabilisation as well as economic stabilisation and growth. To be in a position to achieve these goals, different responsibilities are allocated to different national government departments in line with the departmental mandates and others are cascaded to provinces and local government (municipalities).

To promote and embrace governance with a view of improving efficiency, effectiveness, accountability which are pillars of good governance, while also ensuring that the state respond quickly to the needs of its

citizens, South Africa, like other democratic states has also adopted the principles of good governance through enacting a vast number of acts and regulations.

The enactment of these regulations appears to be driven by a belief that management of public finances is one of the most important areas in public institutions. As such key governance regulations in South Africa are the Public Finance Management Act, 1999 (PFMA, 1999), the Municipal Finance Management Act, 2003 (MFMA, 2003), the Protocol on Corporate Governance in the public sector which was published in 2002 and it provides guidance on matters relating to governance specifically to the public sector (Department of Public Enterprises, 2002).

It was indicated earlier that government departments have different mandates and responsibilities that they need to fulfil. In a similar way that banks for instance have credit committees providing oversight on credit matters and pension funds have investment committees that provide oversight on investments matters, therefore; in addition to the generic audit and risk committees, national government departments ought to have specific committees relating to their competencies. This paper proposes enhanced governance committees in the South Africa's national government departments

To avoid any possible confusion when it comes to the application of terms, and for the purpose of this paper, the term "governance" will be applied throughout to describe what would have otherwise been commonly referred to in the private sector as "corporate governance".

## **2 Objectives, scope and limitations**

The objectives of this article are twofold: firstly, it highlights the existing governance committees in the South African public sector, and secondly, it argues that each national government department has a specific mandate and therefore, governance committees cannot and should not be universal. It is on this premise that this paper argues for the formation enhanced governance committee in line with the departmental mandate.

The manner in which the public sector departments are organized in South Africa is complex, for instance; in provinces; certain functions that would be performed by different national government departments are consolidated into one department (with a political known as the Member of Executive Council). A case in point involves the province of the Eastern Cape where there is department responsible for economic development, environmental affairs and tourism, whereas in the national set-up, this would be three national departments namely; the department of economic development with its political head namely; the Minister of Economic Development and the department of environmental affairs with its political head namely; the Minister of Environmental Affairs) and the department of tourism with its political head namely; the Minister of Tourism).

Given the complexity of the national and the provincial set-ups in South Africa, it is important, therefore, to recognize the uniqueness of the composition and features of these institutions. As such, the immediate limitation of this study is that its focus will be the formation of enhanced governance committees on the national government departments. Provincial government departments, Chapter 9 institutions, municipalities and state owned companies present an opportunity for further research. However, enhanced committees could be rolled-out to other state institutions, taking into account their uniqueness and composition.

As of 2015, South Africa had the following national departments namely; Agriculture, Forestry & Fisheries, Arts & Culture, Basic Education, Civilian Secretariat for Police, Communications (previously Government Communication and Information System), Cooperative Governance & Traditional Affairs, Correctional Services, Defence, Economic Development, Energy, Environmental Affairs, Health, Higher Education & Training, Home Affairs, Human Settlements, Independent Police Investigative Directorate, International Relations & Cooperation, Justice & Constitutional Development, Labour, Military Veterans, Mineral Resources, National School of Government (previously Palama), National Treasury, Performance Monitoring & Evaluation, Public Enterprises, Public Service & Administration, Public Service Commission, Public Works, Rural Development & Land Reform, Science & Technology, Social Development, South African Police Service, South African Revenue Service, Small Business Development, State Security Agency, Sports & Recreation South Africa, Statistics South Africa, Telecommunications & Postal Services, Tourism, Trade & Industry, Transport, Water and Sanitation, Women and The Presidency.

The remainder of this article discusses the methodology followed, reviews the relevant literature on governing bodies, discusses existing governance committees in the public sector and finally; it proposes enhanced governance committees in addition to the existing generic governance structures. In the final section, proposals are summarised, conclusions reached and recommendations made.





### 3 Research methodology

The methodology followed was to analyse official government publications, especially the Treasury Regulations, the Public Finance Management Act of 1999 (as amended), other current scholarly publications, including current academic research (literature review) on governance committees in the public sector.

The process of analysing the existing literature highlighted the existing governance committees in the South African public sector, and based on this, the paper proposes governance committees consistent with the departmental mandate.

To ensure that there is clarity on the scope and role of the proposed committees, an operating model called “the RACI model” is suggested. This operating model will act as a guiding principle and departments could enhance the model based on its uniqueness and features. Figure 1 below defines the RACI elements:

Figure 1. Guiding principles of RACI model

 <b>R</b> esponsible <b>The governance body that takes responsibility that things are rightfully done.</b>	 <b>A</b> ccountable <b>The governance body that takes accountability that right things are done. This body should assume accountability should things go wrong.</b>
 <b>C</b> onsulted <b>The governance body that should provide the right advice i.e. input or clarify principles.</b>	 <b>I</b> nformed <b>The governance body that should be informed on decisions and results.</b>

### 4 Review of relevant literature

#### 4.1 Existing corporate governance committees in the public sector

In the recent unpublished paper titled “Assessing Corporate Governance Disclosures in South Africa’s National Government Departments: The State and Corporate Governance”, Mloi (2015) used the content analyses methodology to ascertain the extent and the level of disclosure of corporate governance information in the annual/ integrated reports of South Africa’s national government departments.

The above-mentioned study found that national government departments did not widely disclose all the required corporate governance information, however; it was observed that all national government departments had existing audit committees and this fact had been disclosed in their annual/ integrated report. With regards to the risk committee, it was found that formation of these committees were at an early stage and as such, only 59% of South Africa’s national government departments had existing risk committees. There were no any other committees disclosed in the assessed annual/ integrated reports.

The existence of risk and audit committees as governance committees in the national government departments is believed to be grounded on the enactment of rules and regulation requiring that these committees are constituted. Sections 4.1.1 and 4.1.2 below provides an overview on the regulatory requirements of the audit and risk committees in the public sector.

#### 4.1.1 Existence of audit committees

The Public Finance Management Act (PFMA, 1999) as well as Treasury's Regulation 3.1.8 requires that each departments has an independent audit committee. Accordingly, the said regulations (Section 76(4)(d) and section 77 of the PFMA and Treasury's Regulation 3.1.8) places the onus of constituting the independent audit committee on the department's accounting officers (also known as the Director-General).

Table 1 below construct the legislative (PFMA and Treasury Regulations) audit committee requirements:

**Table 1.** PFMA and Treasury's Regulation on Audit Committees

Requirements on:	PFMA and Treasury's Regulations on Audit Committees
Meetings	Audit committees meet at least two times per annum.
	Audit committees meet the Auditor General (AG) at least once in a calendar year.
	Audit committee members meet annually without the presence of management of the department concerned.
Chair	Audit committee to be chaired by an independent person.
	Chair may not be an employee of the department concerned.
	Chair to be knowledgeable of the status and position.
	Chair to have the requisite business, financial and leadership skills.
Terms of Reference (ToR)	Audit committee to construct its own terms of reference which it must operate within its constraints.
Assurance	Audit committee to coordinate all the assurance activities in the department which includes activities of internal audit, external audit, other assurance providers and management.
Financial Control and Reporting	Audit committee to review and report on financial controls.
Quality of Management	Audit committee to review and report on the quality of management in the department concerned.
Risk Management and Audit	Audit committee to review the key areas of risk to be covered by internal and external audit.
	Strategic internal audit plan be based on key areas of risk facing the institution, and take into account its risk management strategy.
Annual/ Integrated Reporting	Each department's annual report to include a disclosure of whether the audit committee has satisfied its responsibilities for the year, in compliance with its terms of reference.

Source: Authors own illustration using information from the PFMA and the Treasury's Regulations

#### 4.1.2 Existence of risk committees

As indicated in section 4.1, the existence of risk committees in the public sector is not as advanced as that of the audit committees. Since the King III Report on Corporate Governance (IOD, 2009) regarded risk as a cornerstone of governance, risk committees are beginning to gain prominence in the public sector. It must however be noted that risk management within the departments was already gaining momentum culminating from the publication of the Public Sector Risk Management Framework by the Office of Accountant General in the National Treasury Department in which this document (National Treasury, 2015) was already embracing the principles enshrined in King II Report on Corporate Governance (IOD, 2002).

Table 2 below construct the legislative (Public Sector Risk Management Framework) risk management committee requirements:

**Table 2.** Public sector risk management framework requirements

<b>Requirements on:</b>	<b>Public Sector Risk Management Framework</b>
Chair	Risk Management committee to be chaired by an independent person.
Membership	Risk Management Committee to comprise of both management and external members with the necessary mixture of skills, competencies and attributes.
Terms of Reference (ToR)	Risk Management Committee responsibilities to be formally defined in a charter approved by the Accounting Officer / Authority.
Responsibilities towards Risk Governance	Risk Management Committee to review and recommend risk management policy.
	Risk Management Committee to review and recommend the risk management strategy.
	Risk Management Committee to review and recommend the risk management implementation plan.
	Risk Management Committee to review and recommend the departmental risk appetite.
	Risk Management Committee to review and recommend the departmental risk tolerance.
	Risk Management Committee to review and recommend the risk identification and assessment methodologies.
	Risk Management Committee to review and recommend.
Responsibilities towards Risk Management and Reporting	Risk Management Committee to evaluate the extent and effectiveness of integration of risk management within the department.
	Risk Management Committee to assess implementation of the risk management policy and strategy (including the risk plan).
	Risk Management Committee to evaluate the effectiveness of the mitigating strategies implemented to address the material risks of the Institution.
	Risk Management Committee to review the material findings and recommendations by assurance providers on the system of risk management and monitor the implementation of such recommendations.
	Risk Management Committee to develop its own key performance indicators for approval by the Accounting Officer / Authority.
	Risk Management Committee to provide timely and useful reports to the Accounting Officer / Authority of the department concerned on the state of risk management, together with accompanying recommendations to address any deficiencies identified by the Committee.
Relationship with Audit Committee	Risk Management Committee to interact with the Audit Committee so as to share information relating to material risks of the department.

Source: Authors own illustration using information from the Treasury's Public Sector Risk Management Framework

**Table 3.** Proposed Committees and the Application of the RACI Model

Department	Executive RACI	Proposed Committee	Proposed Com. RACI
Agriculture, Forestry & Fisheries	R & A	Govern. Com. on Agr For & Fish.	C & I
Arts & Culture	R & A	Govern. Com. on Arts & Cult.	C & I
Basic Education	R & A	Govern. Com. on Bas Ed.	C & I
Civilian Secretariat for Police	R & A	Govern. Com. on Pol.	C & I
Communications	R & A	Govern. Com. on Comm.	C & I
Cooperative Governance & Traditional Affairs	R & A	Govern. Com. on Coop Gov & Tr.	C & I
Correctional Services	R & A	Govern. Com. on Correct Serv.	C & I
Defence	R & A	Govern. Com. on Def.	C & I
Economic Development	R & A	Govern. Com. on Econ Dev.	C & I
Energy	R & A	Govern. Com. on Ener.	C & I
Environmental Affairs	R & A	Govern. Com. on Env Aff.	C & I
Health	R & A	Govern. Com. on Heal.	C & I
Higher Education & Training	R & A	Govern. Com. on High Ed & Tra.	C & I
Home Affairs	R & A	Govern. Com. on Hom Aff.	C & I
Human Settlements	R & A	Govern. Com. on Hum Settl.	C & I
Independent Police Investigative Directorate	R & A	Govern. Com. on Pol.	C & I
International Relations & Cooperation	R & A	Govern. Com. on Int Rel & Coop.	C & I
Justice & Constitutional Development	R & A	Govern. Com. on Just & Con.	C & I
Labour	R & A	Govern. Com. on Lab.	C & I
Military Veterans	R & A	Govern. Com. on Mil Vet.	C & I
Mineral Resources	R & A	Govern. Com. on Min Res.	C & I
National School of Government	R & A	Govern. Com. on High Ed & Tra.	C & I
National Treasury	R & A	Govern. Com. on Fin.	C & I
Performance Monitoring and Evaluation	R & A	Govern. Com. on Perf & Eval.	C & I
Public Enterprises	R & A	Govern. Com. on Pub Entr.	C & I
Public Service and Administration	R & A	Govern. Com. on PSA.	C & I
Public Service Commission	R & A	Govern. Com. on PSC.	C & I
Public Works	R & A	Govern. Com. on Pub Wor.	C & I
Rural Development and Land Reform	R & A	Govern. Com. on Rur Dev & Ref.	C & I
Science and Technology	R & A	Govern. Com. on Sci & Tech.	C & I
Social Development	R & A	Govern. Com. on Soc Dev.	C & I
South African Police Service	R & A	Govern. Com. on Pol.	C & I
South African Revenue Service	R & A	Govern. Com. on Fin.	C & I
Small Business Development	R & A	Govern. Com. on Bus Dev.	C & I
State Security Agency	R & A	Govern. Com. on Stat Sec.	C & I
Sports and Recreation South Africa	R & A	Govern. Com. on Spor. & Rec.	C & I
Statistics South Africa	R & A	Govern. Com. on Fin.	C & I
Telecommunications and Postal Service	R & A	Govern. Com. on Tel & Pos.	C & I
Tourism	R & A	Govern. Com. on Tour.	C & I
Trade and Industry	R & A	Govern. Com. on Trad & Ind.	C & I
Transport	R & A	Govern. Com. on Trans.	C & I
Water and Sanitation	R & A	Govern. Com. on Wat and San.	C & I
Women	R & A	Govern. Com. on Wom.	C & I

R = Responsible A = Accountable I = Informed C = Consulted

## 5 Proposed governance committees

This paper argues that other institutions in addition to the risk and the audit committees, for instance; institutions such as banks have credit committees as the core of their business is deposit taking and lending and other institutions for instance pension funds will have investment committees as they need to invest pension funds, as such; it is argued that national government departments ought to have additional governance committees modelled around the parliamentary portfolio committees (Parliament RSA, 2015).

The envisioned independent governance committees would act as a day-to-day oversight body monitoring and evaluating actions required for the achievement of the individual departmental strategic plans. Since these committees are to operate in a similar manner to the existing audit and risk committees, its responsibilities should be defined in the same way (i.e. they will not be replacing the statutory parliamentary committees but meant to augment the process).

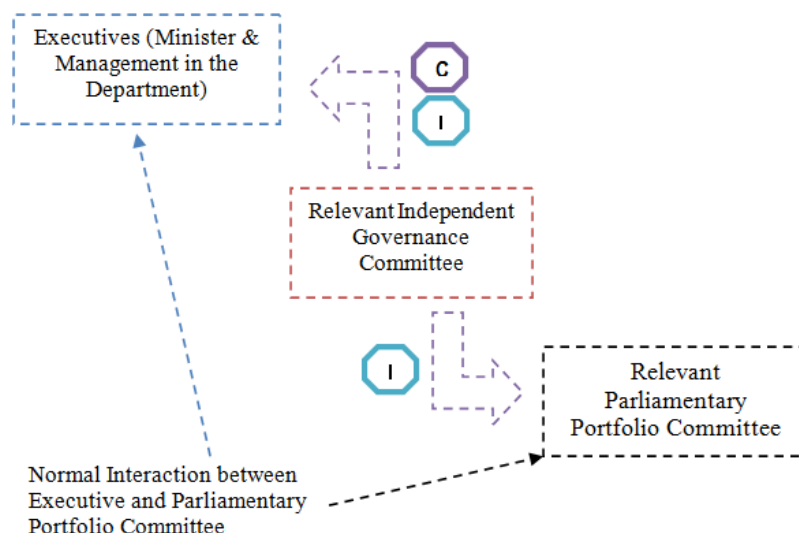
The main advantage of these committees is that they should be a constant feature in a similar way to the other existing committees and as such; there would not be questions at the end of the department's fiscal year or only if the department is scheduled for appearance in the parliamentary portfolio as to why some deliverables were not achieved. In a sense, they will consistently have a chance to question management on areas where they feel that the specific objectives are unlikely to be met.

The list of proposed governance committees in South African national government departments and the potential application of the RACI appears on Table 3.

Table 3 demonstrates the proposed departmental governance committees. In addition to the proposal of independent governance committees modelled around the parliamentary portfolio committees, the RACI model is applied. For instance, the executive branch will continue to take responsibility and accountability on the decisions made in the department (for responsibility and accountability description as proposed by this paper, refer to Figure 1).

The proposed governance committees do not perform any executive function of the department as such; according to the defined RACI parameters, they can only be informed and consulted on the decisions to be made as demonstrated in Figure 2 below (for information and consultation description as proposed by this paper, refer to section 3, Figure 1).

**Figure 2.** Enhanced governance committee and key stakeholders



## 6 Conclusion

The study aimed at highlighting the existing governance committees in the South African public sector as well as proposing additional governance committees in line with a specific departmental mandate. During the study, it was highlighted that both the audit and the risk committees have gained prominence in the national government departments. The main driver behind the prominence of these two committees

was highlighted as the regulatory requirements i.e. the requirement of the Public Finance Management Act of 2009 and the Treasury Regulations on the audit committees side as well as the Public Sector Risk Management Framework which requires the establishment of risk committees.

An argument was put forward that in a similar manner as banks and pension funds for instance, in addition to the risk and audit committees, these institutions have credit committees in respect of banks and investment committees in respect of pension funds for instance. These committees provide oversight on the core businesses of these institutions. In a similar manner, national government departments should not only have universal governance committees such as the audit and risk committees. Relevant additional governance committees should therefore be defined in line with the specific departmental mandate.

The study put forward the proposal that the envisaged governance committees should be modelled around the parliamentary portfolio committees, however; these committees will remain governance committees with defined roles and responsibilities similar to the audit and risk committees that are already in existence in the national government departments.

In section 4, the roles and responsibilities of the audit and risk committees were dissected. From the dissection, it became clear that the main focus of constituting these committees were to ensure that there was proper and robust risk management process as well as proper financial governance and control. In essence, the existing committees are concentrated on issues around risk, governance and control in the national government departments.

As it was indicated in section 1, national government department exist to execute a specific mandate (strategic plan), and so, it is concluded that the envisioned independent governance committees should monitor and evaluate actions required to achieve the departmental strategic plans. It is believed that in-between the parliamentary portfolio committee meetings which get scheduled where departments and relevant parliamentary committee members have questions and answers session, the envisioned governance committees could provide an on-going oversight, particularly on specific deliverables by departments. In this case, there would not be questions at the end of the department's fiscal year or only if the department is scheduled for appearance in the parliamentary portfolio as to why some deliverables were not achieved. As the envisioned governance committees will be having an oversight as well as consistent meetings like all other governance committees function, gaps could be identified earlier and solutions sought and this has a potential of improving delivery.

The envisioned committees could be granted access to both the political executives (Ministers) as well as executives (departmental management). In addition to this, the envisioned committees could also be provided an access to their respective parliamentary committee to provide an independent view on the progress or concern with regards to the achievement of the pre-stated objectives of the departments.

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