Performance Audit on the economy, efficiency and effectiveness of the oversight and governance systems by the Department of Public Enterprises over their state owned entities

Objectives, Criteria and Researchable questions

Sub-focus area 1: Influence strategic directions

Audit objectives

- To determine whether the department has measures in place to ensure that the State Owned Entity (SOE) activities are in accordance with the enabling legislative mandate in achieving its objectives.

- To determine whether the department has established policies and guidelines to provide authority and mandatory framework within which to exercise an oversight role on the SOE.

- To determine whether the department and the SOE entered into a shareholder's compact on an annual basis.

- To determine whether the department assesses the SOE Corporate plans to ensure that the strategies and financial plans are consistent, coherent and aligned with government objectives, strategic intent statement and shareholder compact target for each year and whether the SOE corporate plan:
  - cover a period of three years;
  - include the objectives and outcomes as identified by the department;
  - include multi-year projections of revenue and expenditure;
  - include key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and objectives;
  - include the materiality/significant framework, referred to in the Treasury Regulations

Audit criteria

- The department must have policies and procedures outlining the roles and deliverables required by each SOE in achieving its oversight function.
The department must ensure that the activities and commitments of the SOE are effectively monitored and evaluated on a quarterly basis and which are aligned to:

- The Corporate Plan and
- Shareholder Compacts

The department must assess the SOE Corporate Plans to ensure that it is aligned with government’s objectives, strategic intent statement and shareholder compact targets.

Researchable questions

Does the department:

- ensure that the activities of the SOE are in accordance with its enabling legislative mandate?

- establish policies and guidelines to provide an authoritative and mandatory framework within which it can exercise its oversight role on the SOE?

- and the SOE enter into a shareholders' compact on an annual basis, documenting the mandated key performance measures and indicators to be attained by the SOE in delivering the desired outcomes and objectives as agreed between the SOE Board and the Minister and key procedures for quarterly reporting to the department in order to facilitate effective performance monitoring, evaluation and corrective action?

- assess the SOE corporate plans to determine whether the strategies and financial plans are consistent, coherent and aligned with government objectives, strategic intent statement and shareholder compact targets for each year and whether the SOE corporate plan:
  - cover a period of three years;
  - include objectives and outcomes as identified by the department;
  - include multi-year projections of revenue and expenditure;
  - include key performance measures and indicators for assessing the entity’s performance in delivering the desired outcomes and objectives;
  - include the materiality/significant framework, referred to in the Treasury Regulations?

Sub-focus area 2: Monitor implementation

Audit objectives

- To determine whether the department has reporting policies and procedures in place which enables them to obtain information in a timely manner and which are complete, accurate and relevant.

- To determine whether the department takes appropriate action if the information received is incomplete, inaccurate and not timely.
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- To determine whether the management measures to monitor the agreed upon areas as per the SOE shareholder compacts, are effective.

- To determine whether the department properly review reports received from the SOE to ensure that the information is presented in a meaningful way that is manageable, reasonable, objective and accurate reflection of the performance of the SOE.

- To determine whether the department reviews and analyses SOE reports to ensure that SOE performance is on track with the corporate plans, whether strategic objectives have been met and to highlight any areas of deviation and communicate its concerns to the SOE Board.

Audit criteria

- The department must ensure information is received in a timely manner from the SOE and that the information received is complete and accurate and appropriate action is taken for information that is incomplete and inaccurate.

- The department must have measures in place to monitor and review agreed upon performance indicators to ensure that strategic objectives have been met by the SOE, and that any deviations are communicated to the SOE Board and the Executive Authority.

Researchable questions

Does the department:

- Monitor the agreed upon areas as per the SOEs shareholder compacts?

- have reporting policies and procedures in place which enables them to obtain information in a timely manner and which are complete, accurate and relevant?

- properly review reports received from the SOE to ensure that the information are presented in a meaningful way that is a manageable, reasonable, objective and accurate reflection of the performance of the SOE?

- take appropriate action if the information received is incomplete, inaccurate and not timely?

- review and analyse SOE reports to determine whether SOE performance is on track with the corporate plans, whether strategic objectives have been met and to highlight any areas of deviation and communicate its concerns to the SOE Board and does the SOE communicate to the department and SOE Board on any areas of deviation and concerns?

Sub-focus area 3: Identifying risks

Audit objectives
To determine whether there are procedures in place to monitor and assess incidents from the identified risk categories and to highlight any emerging risks.

To determine whether the department considers industry practices of the SOE, significant changes in the SOE business, industry and regulatory environment that may impact its performance and pricing structures, and the interests of consumers.

Audit criteria

- The department must monitor and assess the risk identified by the SOE to ensure that the risk is adequately addressed by confirming that:
  - there are procedures in place to assess and monitor the risk and
  - the performance of the SOE is compared against industry practices and norms.

Researchable questions

- Are there procedures in place to monitor and assess incidents from the identified risk categories and to highlight any emerging risks?
- Does the department consider industry practices of SOE, significant changes in the SOE business, industry and regulatory environment that may impact its performance and pricing structures, and the interests of consumers?

Sub-focus area 4: Implement corrective actions

Audit objectives

- To determine whether the department has policies and procedures in place to communicate and alert the SOE Board about areas of concern and emerging risk and to suggest appropriate risk mitigation measures.
- To determine whether the department has policies and procedures in place for monitoring, detecting and mitigating SOE and cross-cutting risks in a timely and efficient manner.

Audit criteria

- The department must have policies in place to assist the SOEs to monitor, detect and mitigate risk in a timely manner.

Researchable questions

- Does the department have policies and procedures in place to communicate and to alert the SOE Board about areas of concern and emerging risk and to suggest appropriate risk mitigation
measures and does the SOE have policies and procedures in place to communicate and to alert the department and the SOE Board about areas of concern and emerging risk and to suggest appropriate risk mitigation measures?

- Does the department have policies and procedures in place for monitoring, detecting and mitigating SOE and cross-cutting risks in a timely and efficient manner?

### Sub-focus area 5: Ensure transparency and accountability

**Audit objectives**

- To determine whether the department has policies and procedures in place for assessing SOE performance in a timely and efficient manner and communicating risk and deviation from agreed key performance measures and indicators to the SOE Board.

- To determine whether the department observes proper corporate governance in its relationship with the SOE Board in the exercise of its key levers of interest, namely Board appointments, strategic intent, reserved shareholder approval rights and performance monitoring.

- To determine that the department engages in active dialogue and questions the SOE Board about the SOE and the conduct of its affairs in relation to the strategic intent statement at the AGM.

- To determine whether the department assess the performance of Board members and effect appropriate changes as and when necessary.

- To determine whether the department researches and communicates with the SOE where governance issues and company strategy need effective resolution.

- To determine if the department engages with the board to exchange views and information on strategy, performance, board membership and quality of management.

**Audit criteria**

- The department must have policies and procedures in place to ensure that risk identified and deviations from agreed upon key measures are communicated to the SOE Board.

- The department must ensure that it has policies and procedures in place to appoint, monitor and evaluate the performance of the SOE Board.

- The department must have policies and procedures in place to monitor and assess the performance of the SOE Board and effect changes where necessary, by ensuring that:
  - The board composition is in terms of King III;
  - The boards achievement of its objectives is in terms of the Shareholder Compact and
  - The board members are assessed collectively and individually in achieving their objectives.
The department must research and communicate with the SOE where governance issues and company strategy need effective resolution.

The department must communicate to the SOE Board on a regular basis on the strategy, performance, board membership and quality of management.

Researchable questions

- Does the department have policies and procedures in place for assessing SOE performance in a timely and efficient manner and communicating risk and deviation from agreed key performance measures and indicators to the SOE Board?

- Does the department observe proper corporate governance in its relationship with the SOE Board in the exercise of its key levers of interest, namely Board appointments, strategic intent, reserved shareholder approval rights and performance monitoring?

- Does the department engage in active dialogue and question the SOE Board about the SOE and their conduct of its affairs in relation to the strategic intent statement at the AGM?

- Does the department assess the performance of Board members and effect appropriate changes as and when necessary?

- Does the department research and communicate with SOE where governance issues and company strategy need effective resolution?

- Does the department engage with the board to exchange views and information on strategy, performance, board membership and quality of management?