SUSTAINABILITY INTERNAL AUDITING IN THE PUBLIC SECTOR

PEMPAL AiP and CHU Challenges Working Groups Meeting
Chisinau, Moldova

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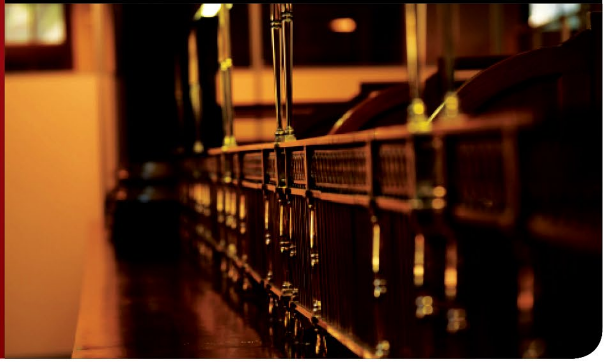

national treasury
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REPUBLIC OF SOUTH AFRICA

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Background

- South Africa's vast and diverse pool of natural resources has made us an attractive international tourist destination.
- Tourism makes up roughly 8% of current gross domestic product (GDP) with expectations of it increasing to 10% by 2030.
- Morally, ethically and economically, we thus have a huge responsibility to protect our natural resources.
- We have a vast portfolio of environmental protection laws and regulations (which I will share with you in the next slide).
- These laws and regulations can only be effective with the participation of multiple stakeholders, with the Internal Audit community being one of the important stakeholders.
- It is appropriate that we ask ourselves how Internal Audit can optimise its impact in supporting environmental management, and how we as Government support them to do that.
- The previous IACOP has elevated this question in our minds.

Legislative Requirements

- **National Environmental Management Act (NEMA), 1998:** Establishes principles for co-operative environmental governance and sustainable development. It establishes principles for decision-making and coordinating environmental management functions among various stakeholders.
- **National Environmental Management: Air Quality Act**, 2004: Aims to protect the environment by preventing pollution and providing national standards for air quality.
- **National Water Act, 1998:** Regulates water resource protection, use, and pollution control.
- **National Environmental Management: Waste Act** (NEMWA), 2008: Governs waste management, including the storage, recycling, and disposal of waste.
- **National Environmental Management: Biodiversity Act**, 2004: Focuses on the conservation of biodiversity, the protection of species, and the sustainable use of biological resources.
- **National Environmental Management: Protected Areas Act**, 2003: Provides for the protection of ecologically viable areas through the establishment and management of protected areas.
- **National Forests Act**, 1998: Promotes the sustainable management and development of forests.
- **Marine Living Resources Act**, 1998: Manages the sustainable use of South Africa's marine living resources.
- **Climate Change Act**, 2024: Aims to provide a framework for a long-term transition to a low-carbon and climate-resilient economy.
- **Carbon Tax Act**: A key measure to address climate change by taxing carbon emissions.
- **Environmental Impact Assessment (EIA) Regulations**: These regulations require assessments for activities likely to have a significant impact on the environment.

Non-Internal Audit Assurance Providers

- These laws and regulations introduce various non-IA actors in the sustainability management space as assurance providers, for example:
  - **Environmental Management Inspectorate (“Green Scorpions”):** to investigate environmental crimes, conduct inspections and enforce compliance
  - **Auditor-General (Supreme Audit Institution):** to audit environmental compliance as part of performance audits.
  - **Environmental Assessment Practitioners:** conduct environmental impact assessments and compliance audits for licensed activities.
  - **Non-Governmental Organisations (NGOs):** act as watchdogs, advocate for environmental justice, and monitor institutional compliance.
  - **Parliamentary Committee on Environment:** to provide political oversight, overseeing performance against critical environmental targets and provide a platform for public discourse on environmental matters.
- The presence of these actors implies multiple sources of assurance availability.
- It is therefore incumbent on Internal Audit to find its right fit in the assurance ecosystem, avoid duplication and identify gaps that it can fill to maximise its impact.

Internal Audit Focus Areas

- Given the vast scope of environmental issues, IA may perform on a risk-assessed basis:
  - Strategic-risk audits
  - Operational audits (e.g., environmental governance arrangements & performance)
  - Compliance audits (e.g., whether rehabilitation liabilities are properly quantified, provisioned and disclosed)
  - Performance audits (e.g., whether environmental spending delivers social value)
  - Environmental information governance assessments (e.g., how information is obtained, validated, stored, disseminated and disclosed in external publications)
  - Various advisory services (e.g., workshops on environmental compliance, training on audit preparation)
- Based on its assessment of the coverage by other assurance providers, as well of its own capacity, IA may:
  - Perform the audit or advisory project itself
  - Co-source specialist skills to augment the in-house internal audit team
  - Outsource the project and merely facilitate liaison between the contractor and management

Key IA Considerations When Contemplating Sustainability Audits

The National Environmental Compliance & Enforcement Report (2023/24) published by the "Green Scorpions" highlighted the following issues that IA must be aware of and include in their plans:

- **Rising Non-Compliance**: Various entities failed to meet licensing and environmental authorization obligations.
- **Weak Monitoring Systems**: Data gaps, limited inspections, and low follow-up on findings persist.
- **Financial Constraints**: Rehabilitation funds and compliance budgets are inadequately maintained.
- **Capacity Gaps**: Shortage of skilled environmental inspectors and ineffective inter-agency coordination.

Results of a Quick Survey of Environmental Auditing in the Municipal Sector

- **Current State**
  - Few internal audit units in municipalities conduct formal environmental audits (it appears this is left to specialist teams).
  - Widely differing practices were noted.
  - The main internal audit focus has been on compliance with environmental laws and regulations, waste management and pollution management.
  - IA charters seldom include environmental assurance.
- **Capacity Constraints**
  - Major gaps in expertise, training, and resources.
  - Poor data quality and complex environmental legislation.
  - Limited collaboration with specialists or environmental units.
- **Impact**
  - Environmental management improvement recommendations have been partially implemented, with limited tracking of outcomes.
  - Impact assessments are informal or absent.
- **Strategic Direction**
  - Mixed intentions to focusing on environmental internal auditing —some plan to increase, others maintain, or delay.
  - Some municipalities are starting to incorporate environmental audits in Internal Audit rolling plans.

<u>These are some of the early results and the survey will continue to be expanded to obtain a whole-of-government view.</u>

Forward Looking Key Focus Areas

- The Internal Audit Support Office (equivalent of the CHU):
  - Is busy fostering collaboration with relevant government institutions to:
    - ✓ understand the environmental management space better
    - ✓ jointly develop guidance for internal auditors thus making environmental auditing guidance a whole-of-government responsibility, aligned with our constitutionally enshrined inter-governmental cooperation principle
    - ✓ harness the best available skills and knowledge within government to assist the internal audit community
  - Has started a process to identify high-risk institutions for increased engagements and support, through:
    - ✓ own research
    - ✓ engagements with various environmental management law makers and assurance providers mentioned previously
    - ✓ improving our risk survey and data collection systems to collect and aggregate environmental risk information

Forward Looking Key Focus Areas (2)

- In addition, the Internal Audit Support Office will:
  - Update the National Internal Audit Framework to enunciate sustainability auditing
  - Develop a sustainability audit guide (using inputs from the GIAS, PEMPAL IACOP Guide, ISSB and others)
  - Build data collection and analytical capabilities, including for sustainability information, accessible by internal auditors
  - Enhance the combined assurance framework to appreciate the vast ecosystem of assurance providers for environmental assurance

THANK YOU