

PRACICE NOTES

King III Chapter 3
Example Report of the Audit Committee

June 2010

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Example report of the audit committee**Introduction**

Principle 3.10 of the King Report requires the audit committee to report to the board and shareholders on how it has discharged its responsibilities. Section 94(7)(f) of the Companies Act, 2008, requires the audit committee to prepare a report to be included in the annual financial statements.

Target audience

This practice note provides guidance to the company secretary and the chairman of the audit committee in preparing the report of the audit committee and would assist companies in complying with the requirements of the Companies Act and King III.

This example is illustrative only and should be tailored in accordance with the audit committee's terms of reference.

In terms of section 94(7)(f) of the Companies Act, 2008, the following matters should be addressed in the report of the audit committee, to be included in the annual financial statements for that financial year:

1. A description of how the audit committee carried out its functions.
2. A statement whether the audit committee is satisfied that the auditor was independent of the company.
3. Comments that the audit committee considers appropriate on the financial statements, the accounting practices and the internal financial controls of the company.

In addition to the Companies Act, 2008, King III assigns further duties and responsibilities to the audit committee.

Example report of the audit committee

We are pleased to present our report for the financial year ended 31 December 20X1.

The audit committee is an independent statutory committee appointed by the shareholders. Further duties are delegated to the audit committee by the board of directors of the company. This report includes both these sets of duties and responsibilities.

1. Audit committee terms of reference

The audit committee has adopted formal terms of reference that has been approved by the board of directors. The committee has conducted its affairs in compliance with its terms of reference and has discharged its responsibilities contained therein. The terms of reference are available on the company's website, at <http://www.XXX.co.za> and are also available on request.



2. Audit committee members, meeting attendance and assessment

The audit committee is independent and consists of three independent, non-executive directors. It meets at least twice per year as per its terms of reference.

The chairman of the board, chief executive officer, finance director, chief audit executive, external auditor and other assurance providers (legal, compliance, risk, health and safety) attend meetings by invitation only.

During the year under review three meetings were held.

Name of member	18 March 20X1	22 July 20X1	2 December 20X1
Mr AN Other (chairman) B Com LLB Appointed: 2009	Present	Present	Present
Ms AC Member BSc (Eng), MBA Appointed: 2008	Absent*	Present	Present
Mr B Member Bcom, CA(SA) Appointed: 2008	Present	Absent*	Present

* Apologies received

The effectiveness of the audit committee and its individual members are assessed on an annual basis.

3. Role and responsibilities

3.1 Statutory duties

The audit committee's role and responsibilities include statutory duties per the Companies Act, 2008, and further responsibilities assigned to it by the board. The audit committee executed its duties in terms of the requirements of King III and instances where the King III requirements have not been applied have been explained in the corporate governance statement, included elsewhere in the Annual Report.

External auditor appointment and independence

The audit committee has satisfied itself that the external auditor was independent of the company, as set out in section 94(8) of the Companies Act, 2008, which includes consideration of previous appointments of the auditor, the extent of other work undertaken by the auditor for the company and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and

demonstrate its claim to independence.

The committee ensured that the appointment of the auditor complied with the Companies Act, 2008, and any other legislation relating to the appointment of auditors.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 20X1 year.

There is a formal procedure that governs the process whereby the auditor is considered for non-audit services. The committee approved the terms of a master service agreement for the provision of non-audit services by the external auditor, and approved the nature and extent of non-audit services that the external auditor may provide in terms of the agreed pre-approval policy.

The committee has nominated, for election at the annual general meeting, ABC Auditor as the external audit firm and TJ Auditor as the designated auditor responsible for performing the functions of auditor, for the 20X2 year. The audit committee has satisfied itself that the audit firm and designated auditor are accredited as such on the JSE list of auditors and their advisors.

Financial statements and accounting practices

The audit committee has reviewed the accounting policies and the financial statements of the company and is satisfied that they are appropriate and comply with International Financial Reporting Standards.

An audit committee process has been established to receive and deal appropriately with any concerns and complaints relating to the reporting practices of the company. No matters of significance have been raised in the past financial year.

Internal financial controls

The audit committee has overseen a process by which internal audit performed a written assessment of the effectiveness of the company's system of internal control and risk management, including internal financial controls. This written assessment by internal audit formed the basis for the audit committee's recommendation in this regard to the board, in order for the board to report thereon. The board report on the effectiveness of the system of internal controls is included elsewhere in the Annual Report. The audit committee supports the opinion of the board in this regard.

Whistle blowing

The audit committee receives and deals with any concern or complaints, whether from within or outside the company, relating to the accounting practices and internal audit of the company, the content or auditing of the company's financial statements, the internal financial controls of the company and related matters.

3.2 Duties assigned by the board

In addition to the statutory duties of the audit committee, as reported above, and in accordance with the provisions of the Companies Act, 2008, the board of directors has determined further functions for the audit committee to perform, as set out in the audit committee's terms of reference. These functions include the following:



Integrated reporting and combined assurance

The audit committee fulfils an oversight role regarding the company's integrated report and the reporting process.

The audit committee considered the company's sustainability information as disclosed in the integrated report and has assessed its consistency with operational and other information known to audit committee members, and for consistency with the annual financial statements. The audit committee discussed the sustainability information with management and the chairman of the sustainability committee, and has considered the conclusion of the external assurance provider. The committee is satisfied that the sustainability information is reliable and consistent with the financial results.

The audit committee recommended to the Board the appointment of XYZ External Assurance Provider to perform an assurance engagement on key performance indicators included in the company's sustainability reporting. The audit committee determined the scope of this assurance engagement and satisfied itself as to the independence and competency of the external assurance provider.

The audit committee is satisfied that the company has optimised the assurance coverage obtained from management, internal and external assurance providers in accordance with an appropriate combined assurance model.

The audit committee has, at its meeting held on 20 January 20X2, recommended the integrated report for approval by the board of directors.

Going concern

The audit committee has reviewed a documented assessment, including key assumptions, prepared by management of the going concern status of the company and has made recommendation to the board in accordance. The board's statement on the going concern status of the company, as supported by the audit committee, is elsewhere in the Annual Report.

Governance of risk

The board has assigned oversight of the company's risk management function to the risk committee. The chairman of the audit committee attends the risk committee meetings by standing invitation to ensure that information relevant to these committees is transferred regularly. The audit committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks as it relates to financial reporting.

Internal audit

The audit committee is responsible for ensuring that the company's internal audit function is independent and has the necessary resources, standing and authority within the company to enable it to discharge its duties. Furthermore, the committee oversees cooperation between the internal and external auditors, and serves as a link between the board of directors and these functions.

The audit committee considered and recommended the internal audit charter for approval by the board. The internal audit function's annual audit plan was



approved by the audit committee.

The internal audit function reports centrally with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the company's operations. The chief audit executive is responsible for reporting the findings of the internal audit work against the agreed internal audit plan to the audit committee on a regular basis.

The chief audit executive has direct access to the audit committee, primarily through its chairman.

The audit committee is also responsible for the assessment of the performance of the chief audit executive and the internal audit function. In February 20X1, an external effectiveness review was performed by XYZ Inc., reporting positive results and rating the internal audit function as 'high quality'.

During the year, the committee met with the external auditors and with the chief audit executive without management being present.

The audit committee is satisfied that it complied with its legal, regulatory or other responsibilities.

Evaluation of the expertise and experience of financial director and finance function

The audit committee has satisfied itself that the financial director has appropriate expertise and experience.

The audit committee has considered, and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the financial function.

AN Other
Chairman
20 January 20x2

References:

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Anglo Platinum annual report, 2008
AECI annual report, 2008
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Capital Property Fund annual report, 2008
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