

# PRACTICENOTES

King III Chapter 7 & 9

Example Board Report on the  
Effectiveness of Internal Controls

June 2010

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**Example board report on the effectiveness of internal controls****Introduction**

Principle 2.13 of the King Report requires the board to report on the effectiveness of the company's system of internal controls.

To support this responsibility of the board Principle 7.3 requires internal audit to provide a written assessment of the effectiveness of the company's system of internal control and risk management and Principle 3.7 requires the audit committee to be responsible to oversee internal audit. Chapter 3, paragraph 67 states that the audit committee should evaluate the nature and extent of the formal documented review of internal financial controls to be performed by internal audit on behalf of the board every year.

**Target audience**

This practice note provides guidance to the company secretary and the chairman of the board in preparing the report by the board on the effectiveness of the company's system of internal controls.

This example is illustrative only and should be tailored in accordance with the company's specific needs.

**Example board report on the effectiveness of internal controls**

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

***The following serves as illustrative wording where, in the view of the board, supported by the audit committee, the company's system of internal control and risk management is effective and no significant deficiencies in the design, implementation or execution of internal financial controls were identified. The board expresses its conclusion in a positive form of opinion.***

Based on the results of the formal documented review of the company's system of internal controls and risk management, including the design, implementation and effectiveness of internal financial controls conducted by the internal audit function during the 20x1 year, considering information and explanations given by management and discussions with the external auditor on the results of the audit, assessed by the audit committee, the board is of the opinion that the company's system of internal controls and risk management is effective and that the internal financial controls form a sound basis for the preparation of reliable financial statements. The board's opinion is supported by the audit committee.

OR

***The following serves as illustrative wording where no significant deficiencies in the company's system of internal control and risk management, including the design, implementation or execution of internal financial controls, were identified. The board, supported by the audit committee, expresses its conclusion on the effectiveness of the system of internal financial control in a negative form of opinion.***



Based on the results of the formal documented review of the company's system of internal controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by the internal audit function during the 20x1 year and considering information and explanations given by management and discussions with the external auditor on the results of the audit, assessed by the audit committee, nothing has come to the attention of the board that caused it to believe that the company's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements. The board's opinion is supported by the audit committee.

OR

***The following serves as illustrative wording where significant deficiencies in internal financial controls were identified. The board, supported by the audit committee, is still of the view that internal financial controls are effective and expresses its conclusion in a positive form of opinion.***

During the year under review, the internal audit function communicated its identification of an instance of management fraud to the audit committee. The internal audit function, under the direction of the audit committee, investigated the matter and the audit committee concluded that it was an isolated incident. The company has instituted criminal charges against the relevant member of management and the audit committee and board are satisfied that appropriate corrective action has been taken to prevent a recurrence.

Based on the results of the formal documented review of the company's system of internal control and risk management, including the design, implementation and effectiveness of internal financial controls conducted by the internal audit function during the 20X1 year, the audit committee's consideration of information and explanations given by management and discussions with the external auditor on the results of the audit, the board is of the opinion that the company's system of internal controls is effective and the internal financial controls form a sound basis for the preparation of reliable financial statements. The board's opinion is supported by the audit committee.

XYZ  
Chairman  
20 January 20x2

**References:**

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