



## Audit Committee Reporting

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# Audit Committee Reporting

## 1. Introduction

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The purpose of this paper is to provide guidance to audit committees on reporting their activities to the stakeholders of the entities that they serve. Often the role of audit committees is misunderstood by their stakeholders and the crucial role that audit committees play is underappreciated as not all of their activities and the outcomes thereof are properly or fully reported.

It is widely accepted that greater transparency of the audit committee's roles and responsibilities is an important way to increase stakeholder confidence in relation to the internal controls and risk management over financial and performance management and compliance of the entity. Furthermore, the audit committee playing its role effectively and reporting transparently will enhance good governance practices.

In certain circumstances, municipalities may have established a separate performance audit committee. It is therefore important that these committees work together to ensure that findings and reporting are correlated.

## 2. Applicable legislation and regulations

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### PFMA

Treasury regulations 3.1.9 and 27.1.7, issued in terms of section 76 of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), require an entity to report in its annual report whether or not the audit committee has adopted formal terms of reference and, if so, whether the committee satisfied its responsibilities for the year in compliance with its terms of reference.

Treasury regulation 3.1.13 applicable to departments requires the audit committee to comment on the following in the annual report:

- (a) the effectiveness of internal controls
- (b) the quality of in-year management and monthly/quarterly reports submitted in terms of the PFMA and the Division of Revenue Act (DoRA)
- (c) its evaluation of the annual financial statements.

Treasury regulation 27.1.10 applicable to public entities requires the audit committee to comment on the following in the annual report:

- (a) the effectiveness of internal controls
- (b) its evaluation of the annual financial statements.

### MFMA

Section 121(3)(j) and 121(4) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) requires that the annual report of the municipality or municipal entity must include any recommendations of the audit committee. Section 166(2)(b) requires the audit committee to review the annual financial statements to provide the municipality's council with an authoritative and credible view of the financial position of the municipality or municipal entity, its efficiency and effectiveness, and its overall compliance with the MFMA, DoRA and any other legislation.

MFMA Circular 65 stipulates that the audit committee shall prepare a report annually that will be incorporated into the municipality's annual report and those of its entities covering the following aspects:

- Describing the functions performed by the audit committee and meetings attended.
- Resolutions taken by the council and the implementation status of recommendations made.
- Other relevant comments that may enhance governance and accountability.

The chairperson of the audit committee must submit a copy of its report at least annually, or at other intervals, to the municipal public accounts committee (MPAC), for consideration during the MPAC engagements on the oversight report.

### MUNICIPAL SYSTEMS ACT

Performance Management Regulations issued on the 24th of August 2011 in terms of Section 120 of the Municipal Systems Act, 2000 (Act No 32 of 2000)(MSA) mandates the establishment of the Performance Audit Committee in municipalities to assess the Performance Management System of the municipality. In terms of Regulation 14(4)(a)(iii), the committee is required to issue an audit report twice per annum on the Performance Management System of the municipality as well as the activities of the committee.

## **COMPANIES ACT**

Section 94(7)(f) of the Companies Act, 2008 (Act No. 71 of 2008) (Companies Act), which refers to state owned companies, requires the audit committee to prepare a report to be included in the annual financial statements for that financial year:

- (i) describing how the audit committee carried out its functions
- (ii) stating whether the audit committee is satisfied that the auditor was independent of the company
- (iii) commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company.

### **3. Challenges and practical recommendations**

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As stated the roles and responsibilities of the audit committee in the public sector are important in enhancing transparency and accountability with regard to the financial and performance reporting and governance processes. This includes interacting with the external auditors throughout the audit process, ensuring that the internal audit function is functioning effectively, assessing the internal control environment, reviewing the annual financial statements and annual performance report (including areas of significant judgement and uncertainties in the both), and advising the accounting officer or accounting authority on financial and other matters.

One of the biggest issues facing all audit committees with regard to their reporting processes is to find the balance between reporting transparently to the stakeholders of the entity, maintaining confidentiality in terms of information that could expose the entity to uncertainties such as litigation, and having sufficient assurance from the various assurance providers to comment on mandated disclosures and statements in terms of the above-mentioned legislation.

Furthermore, the audit committee must ensure that its report is based on the reports that the audit committee has received from the internal audit function, the external auditors and other assurance provider and forms a credible view of the audit committee's assessment of the matters that it considered during the year. The audit committee should ensure that its report addresses the issues raised in the reports of the internal and external auditors from the identification of the causes of the issues to the recommendations to address them.

#### ***Audit committee charter / terms of reference***

It is important to ensure that the terms of reference of the audit committee clearly stipulate the roles and responsibilities of the audit committee so that the committee can measure and report on whether it has met its obligations in terms of the mandate provided to it. The matters below indicate how the audit committee can best obtain assurance concerning what it will be reporting.

#### ***Effectiveness of internal controls***

In terms of assessing the effectiveness of the internal control environment, the audit committee will need to place reliance on the work of assurance providers, the most important being internal audit. Internal financial controls can be considered to be effective by the audit committee if the risk of material error is adequately reduced and, as a result, reported information is reliable. To determine whether weaknesses in internal controls exist and merit inclusion in its report, the audit committee may inter alia undertake the following:

- assess and enquire from the accounting officer/ authority and management whether there is a control framework governing financial and performance reporting and compliance with applicable legislation in the entity
- assess and enquire whether all the risks that pertain to the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework have been identified and documented
- assess whether all risks pertaining to the preparation of the annual performance report in accordance with the applicable framework have been identified and documented
- assess whether controls (manual and automated) have been implemented to address these risks and whether they are adequately designed to prevent or detect material misstatements in the financial statements and annual performance report
- assess and enquire whether the controls identified operated as intended
- review reports and minutes from the risk committee, in cases where the risk committee is separate from the audit committee, including a review of the risk assessment and risk management strategy
- review the work of the internal audit function, including internal audit reports, and ensure that controls necessary to be assessed in terms of the PFMA and the MFMA have been addressed in terms of the audit plan

- review the internal audit reports issued during the year and the internal auditors' assessment of the internal controls of the entity so that the committee can form its own assessment in terms of the reporting required by the Treasury Regulations;
- ensure that the items that gave rise to an audit qualification on the audit of the financial statements, findings of reported performance information and compliance with legislation in prior years have been satisfactorily resolved; and if not, assess the adequacy of proposed action plans, their timelines and the reporting thereof by the internal audit function to the audit committee;
- ensure that the control weaknesses from internal audit are addressed and remediated by management including the repeat findings;
- review the management letter from the external auditors and assess the causes of any misstatements or control weaknesses that have been identified;
- obtain written assurance from management regarding the implementation and effectiveness of internal controls by e.g. reviewing the management representation letter presented to the external auditors and other statements from management; and
- document the assessment in the minutes of the audit committee meeting.

### ***Assessment of the quality of in-year (monthly/quarterly) reporting***

The assessment of financial and performance reporting is a continuous process and should be conducted throughout the year to ensure that entities are reporting timely, credible and reliable information on which stakeholders can base economic decisions. The following processes may be followed:

- inspect and confirm that the in-year report has been signed by the accounting officer or approved by the accounting authority prior to submission to other parties;
- consider explanations for all significant variances in the financial statements and performance report as compared to the appropriated budget and annual performance plan;
- enquire from management and the internal audit function about any outstanding litigation, contingencies and claims;
- review the quarterly reports to be submitted to National or Provincial Treasury and Transferring Officer in terms of the DORA and evaluate whether:
  - o The conditions of the Grant have been met in terms of the expenses incurred
  - o The Non-Financial information is reasonable and correlates to the expenses incurred
- ensure that all deadlines have been met in terms of DORA submissions; and
- document the assessment in the minutes of each audit committee meeting dealing with the assessment of the quarterly reports.

### ***Assessment of the annual financial statements***

The assessment of the annual financial statements is a continuous process, but culminates in the year end financial reporting process, and should be completed prior to the submission to the external auditors for auditing. The following processes may be followed:

- review the efficiency and effectiveness of internal controls over the preparation and reporting of the annual financial statements;
- inspect and confirm that the annual financial statements have been signed by the accounting officer or approved by the accounting authority before submission to the external auditors; and, if subsequently amended, repeated on or before the date of the auditor's report;
- enquire from the chief financial officer if the annual financial statements have been prepared in accordance with the applicable accounting framework and applicable legislation and whether the accounting policies of the entity have been applied appropriately and consistently;
- consider the assumptions applied in matters of significant judgement in preparing the financial statements;
- review the annual financial statements for abnormal and/or significant transactions and the disclosure thereof in the annual financial statements and obtain explanations;
- obtain explanations for all significant variances in the annual financial statements as compared to the appropriated budget and prior year;
- review any new or proposed legislation that may have a material impact on policies and the financial statements, the disclosure thereof and compliance therewith;
- enquire from management and the internal and the external auditors about any outstanding litigation, contingencies and claims, and how these matters were resolved; and if not resolved, if they are reflected in the financial statements;
- determine how significant financial reporting issues for the reporting period were resolved between management and the internal and the external auditors;
- review misstatements arising from the external audit and their impact on the annual financial statements;
- assess the entity's going concern, financial sustainability or liquidity matters, including operational losses to determine whether the entity will meet its obligations as they fall due; and if not, assess management's intended action to remedy the issue;
- understand the reasons for the audit qualifications and the impact thereof on the financial statements and the entity's operations, and assess the adequacy of the action taken/proposed by management to rectify the qualification; and
- document the assessment in the minutes of the audit committee meeting in which the annual report (including the audited financial statements and the auditor's report) is discussed.

## *Performance management and reported performance against predetermined objectives*

Part of the responsibilities of the audit committee includes the review of the performance management system including; the setting of performance objectives, indicators and targets for measuring performance, and ensuring that management has implemented systems, processes and procedures to validate and verify the actual performance. The following processes may be followed:

- review and comment on compliance with statutory requirements and performance management best practices and standards;
- review and comment on the alignment of the integrated development plan or strategic plan, budget, service delivery and budget implementation plan or annual performance plan and performance agreements;
- review and comment on the relevance of indicators and targets to ensure that they are measurable and relate to services performed by the entity;
- review compliance with in-year reporting requirements;
- review the quarterly performance reports submitted by the internal audit function;
- review and comment on the institution's performance management system and make recommendations for its improvement;
- document the assessment in the minutes of the audit committee meeting in which the annual report (including the audited financial statements and the auditor's report) is discussed; and
- issue a report based on its activities and the assessment of the performance management system as noted above.

## *Compliance with legislation*

The MFMA requires in section 125(2)(e) that all noncompliance with the MFMA be reported in the financial statements. The audit committee should enquire concerning the following for all entities:

- processes followed to establish which key legislation the entity is required to comply with;
- whether controls are in place to ensure compliance with laws and regulations;
- processes followed when noncompliance with laws and regulation have been identified, including any disciplinary processes; and
- whether any noncompliance has been identified by management, internal or external auditors and actions taken to rectify these matters.

## *Audit committee's reporting responsibilities towards the Integrated Report*

In terms of the King Code on Corporate Governance the responsibility of the audit committee has been extended beyond financial reporting to also include sustainability reporting. Although this reporting is not mandatory, as entities mature and integrate performance reporting and financial reporting into economic, human resource and other reporting, the audit committee will need to assess the level of reporting and consider its reporting obligations related to the Integrated Report.

The following matters should be considered by the audit committee in this respect:

- The accounting authority or accounting officer should ensure that appropriate systems and processes are established to produce a report to stakeholders that gives a complete picture of an entity's financial and non-financial profiles in such a way that the report is holistic and reliable.
- Reporting should be integrated across all areas of performance, reflecting the choices made in the strategic decisions adopted by the accounting authority or accounting officer, and should include reporting in the triple context of economic, social and environmental issues.

## 4. Enhanced reporting that the audit committee can consider over and above the legislated disclosures

- **Audit committee composition.** The report provides more detail on members' qualifications and independence, including the criteria by which these are evaluated. It may also provide more information on individual members' activities, such as meeting attendance. This can also include the process of selecting committee members.
- **Audit committee meetings.** The report briefly summarises the issues discussed at each of the meetings held over the course of the year. This report may explain the ongoing meeting-by-meeting oversight of certain longer term projects and issues.
- **Audit committee remuneration.** The report briefly summarises how audit committee members are remunerated and the reference to the rates at which they are remunerated. It would include the total amount paid to the individual audit committee member.
- **Audit committee performance.** The report notes that the audit committee has undertaken an evaluation of its own performance and independence using, for example, surveys of the accounting officer or accounting authority, management and the internal and the external auditors.
- **Evaluation of the external auditors.** The report describes how the audit committee assessed the external auditors, identifying the criteria applied, such as independence, technical expertise, and industry knowledge.

- **Evaluation of non-audit services.** The report offers more detail on the guidelines used to determine whether non-audit services provided by the external auditors are not jeopardising auditor independence.
- **Oversight of the external auditors and process for reappointment, where applicable when the AGSA is not the auditor.** The report includes how the audit committee oversees the auditor relationship, fosters auditor independence, and determines appropriate compensation. In addition, the report describes how the decision is made to retender or reappoint the current auditors and disclose the number of years the external auditors have served.
- **Significant issues.** The report offers details of significant issues and uncertainties that the audit committee considered in relation to the financial statements and how these issues were addressed, with reference to matters communicated to it by the auditors.
- **Evaluation of finance function effectiveness.** The report details the audit committee's assessment of the finance function in terms of its establishment and delivering against its mandate, contributing to the entity's objectives and adding value to the various stakeholders of the entity.
- **Internal audit.** The report offers more detail on the work done by the internal audit function and the oversight of the system of internal control. It should discuss an evaluation of the internal audit function once a year, if more than one report is released by the audit committee yearly, whether performed as part of an external party or the internal quality assurance and improvement programme.
- **Oversight of risk governance.** With risk management in general becoming a core concern, the report goes into more detail on risk-related issues and how the audit committee reviews them.
- **Other select topics.** In addition to explaining the review of core concerns such as financial statements, internal controls and risk management, the report mentions other topics receiving significant attention, such as government investigations, ethics, cyber security, and enterprise resource planning implementation.

## 5. Conclusion

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As the public finance management function within government matures, the audit committee's role will become more and more critical to provide assurance and oversight to stakeholders and assist accounting officers and accounting authorities to deliver against their mandate. Therefore, robust and credible reporting of its activities, not only related to financial and performance reporting but also to the integrated report, will provide transparent information to the users of the various reports and can provide an independent viewpoint of the level of financial management maturity within the entity.

# Illustrative Audit Committee Reports

The illustrative reports are aimed at providing practical guidance to audit committee members on the compilation of their yearend reports as required by the PFMA and MFMA. The reports provide illustrative guidance for audit committees on different scenarios and situations that may be applicable. The requirements of King IV have been taken into consideration in these illustrative reports. The illustrative reports are not a substitute for the responsibility of the audit committee to consider the particular circumstances of each entity and should be adapted accordingly.

## Illustration 1 Municipality

1. MFMA reference to MFMA requirements
2. List of Audit Committee members and meeting attendance
3. Audit committee responsibilities
4. Effectiveness of internal control
5. Quality of reports
6. Internal audit
7. Risk management
8. Finance function
9. Performance management
10. Fraud and irregular expenditure
11. Annual financial statements
12. External auditor's report

## 123 MUNICIPALITY AUDIT COMMITTEE REPORT FOR THE YEAR ENDED 30 JUNE 20XX

### 1. Legislative requirements

The purpose of this report is to communicate to the council the audit committee's progress to date in carrying out its oversight responsibilities in terms of section 166 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003, as amended) (MFMA), read with circular 65 published by the National Treasury for the year ended 30 June 20XX.

The MFMA obliges every municipality to establish an independent audit committee, which must advise the municipal council, political office-bearers, accounting officer and management staff of the municipality as well as the accounting officer and the management staff of the municipal entity, on matters relating to internal financial controls and internal audits, risk management, accounting policies, the adequacy, reliability and accuracy of financial reporting and information, performance management, effective governance, compliance with the MFMA, the annual Division of Revenue Act (DoRA) and any other applicable legislation, and any other issues referred to it by the municipality.

The audit committee is governed by formal terms of reference, which are regularly reviewed and approved by the council. The committee is pleased to present its report for the financial year ended 30 June 20XX.

### 2. Audit committee members and attendance

The audit committee was established in accordance with section 166 of the MFMA read with MFMA Circular 65 issued by the National Treasury. The audit committee charter requires that the audit committee comprises a minimum of three members and a maximum of XXX members, of whom the majority must not be in the employ of the municipality or municipal entity.

The audit committee comprises five members, including the chair, Dr A . In terms of section 166(4)(b) of the MFMA, the audit committee must meet at least four times a year. During the financial year ended 30 June 20XX, the audit committee met on seven occasions. The table below shows the attendance of these meetings:

Name	Date of appointment	Qualifications	Number of meetings scheduled	Number of meetings attended
Dr A (chair)	1 September 2012	B Com, higher diploma in accounting, PhD commerce, CA(SA)	7	7
Mr H	1 July 2015	B Compt, B Compt hons, CTA, CA(SA)	7	6
Ms M	1 July 2015	BSc (mechanical engineering)	7	5
Ms H	1 July 2015	LLB	7	6
Mr R	1 March 2014	MBA public finance management	7	6

The members of the audit committee held meetings with the municipal manager as the accounting officer, the board of directors of the municipal entity, senior management of the municipality, the internal audit function and the external auditors, collectively and individually, on matters related to governance, internal control and risk in the municipality, throughout the reporting period. The committee also held a meeting with the honourable mayor and the executive committee of the council to report on governance, internal control, risk, performance and financial information and other relevant matters concerning the municipality.

### 3. Audit committee’s responsibility

The audit committee has complied with its responsibilities arising from section 166 of the MFMA read with MFMA Circular 65, and reports that it operated in terms of the audit committee charter read in conjunction with the internal audit charter.

### 4. Effectiveness of internal control

The audit committee acknowledges management’s efforts to strengthen internal controls in the municipality. The audit committee is concerned that in certain instances the matters reported by the external auditors and the internal audit function in prior years have not been fully and satisfactorily addressed. Management has given assurance that effective corrective action will be implemented in respect of all internal control weaknesses, and the audit committee will monitor these going forward.

Vacancies undermine the effective functioning of the system of internal control and it is imperative that management reviews its recruitment procedures and processes to ensure that vacancies are filled expeditiously with properly qualified, skilled and experienced personnel.

The municipality has adopted aggressive anti-corruption measures to curb the frequency and magnitude of fraud and corruption. The audit committee is not completely satisfied with the prevention of fraud and these concerns have been raised with management. The audit committee has requested that a detailed fraud prevention plan and progress reports on the action plans for addressing the fraud risks be tabled at each quarterly meeting of the audit committee.

Due to the strategic importance of, and investment in, the modernisation of information and communication technology (ICT) in the municipality, the audit committee has monitored the risk register and progress reports on the respective action plans during the year under review. The audit committee remains concerned that not all ICT risks are being addressed or mitigated, in implementing the new systems.

### 5. The quality of monthly and quarterly reports submitted in terms of the MFMA and DORA

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued during the year under review in compliance with the statutory framework. The audit committee has engaged with management to remedy shortcomings, especially relating to the reports on performance against predetermined objectives. The committee has recommended that specific process be implemented to ensure that the information reported is both useful and reliable in terms of the applicable reporting framework.

The audit committee has recommended that the municipality prepare interim financial statements that comply with Standards of Generally Recognised Accounting Practice (GRAP), which could assist in performing reconciliations timeously as well as in eliminating year-end adjustments.

The audit committee has reviewed and commented on the municipality’s and entities’ annual financial statements and report on performance information and their timely submission to the external auditors by 31 August.



The audit committee has reviewed the reports issued to National Treasury and the Transferring Officer in terms of the Division of Revenue Act and is comfortable that the Municipality is meeting its obligation in terms of DORA and has recognised revenue to the extent that conditions have been met.

### 6. Internal audit function

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The accounting officer is obliged, in terms of section 165 of the MFMA, to ensure that the entity has a system of internal audit under the control and direction of the audit committee. The audit committee is satisfied that the internal audit function has properly discharged its functions and responsibilities during the year under review.

The capacity of the internal audit function has been enhanced through the redesign of the internal audit process, employment of additional personnel and investment in an intensive training programme. The audit committee expects these initiatives to contribute to the internal audit function becoming more efficient, more responsive to challenges and better able to provide audit reports of a high quality to management and the committee on a timely basis. The audit committee supports the direction that the internal audit function is adopting in providing the necessary skills and agility required for the function to respond quickly and effectively to the demands for internal audit across the municipality's various locations. The internal audit capacity was enhanced through co-sourcing parts of the internal audit function to R Auditors.

The recent appointment of specialist ICT auditors is a welcome development in light of the need for expertise in the auditing of automated systems and the development and maintenance of a system of continuous auditing.

In terms of the risk-based audit plan approved by the audit committee, the internal audit function has performed 12 of the 15 planned engagements, with the others being postponed due to logistical and capacity constraints within the internal audit function and at management level in the municipality. The internal audit function found that the control environment as a whole was effective; however, some specific control weaknesses were identified in asset management, procurement and revenue management, for which recommendations were made for improvement.

The audit committee is satisfied that the internal audit function maintains an effective internal quality assurance and programme that covers all aspects of the internal audit activity. The internal assessment indicates that all significant areas of non-conformance identified in the previous year's external quality assessment review have been rectified and thus a generally "conforms rating" can be applied to the internal audit work and the term "Conforms with the International Standards for the Professional Practice of Internal Auditing" may be used by the function.

### 7. Risk management function

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The audit committee is responsible for the oversight of the risk management function. The risk management committee reports to the audit committee on the municipality's management of risk. To ensure that the risk management committee understands the requirements of the audit committee, a member of the audit committee currently serves as a member of the risk management committee.

The audit committee is concerned with the risk function being understaffed, which will result in non-delivery by the function if the situation is not addressed. The committee has reviewed the risk register and the reports from the risk committee and is generally satisfied with the maturity of the risk management process.

### 8. Evaluation of the finance function

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As the chief financial officer was only appointed on 1 March 20XX, the finance function could not perform at its optimal capacity with the vacuum that existed in the leadership. Prior to the appointment of the chief financial officer, there was a huge strain on the finance function to deliver quality information on a timely basis.

On the whole, the audit committee is satisfied with the municipality's finance function during the year under review.

## 9. Performance management

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Part of the responsibilities of the audit committee includes the review of performance management. The audit committee has in terms of the performance of the municipality performed the following functions:

- Review and comment on compliance with statutory requirements and performance management best practices and standards.
- Review and comment on the alignment of the integrated development plan, budget, service delivery and budget implementation plan and performance agreements.
- Review and comment on the relevance of indicators to ensure that they are measurable and relate to services performed by the municipality and its entities.
- Review of compliance with in-year reporting requirements.
- Review of the quarterly performance reports submitted by the internal audit function.
- Review and comment on the municipality's performance management system and making recommendations for its improvement.

The audit committee is satisfied that the performance report has been prepared in terms of the MFMA, MSA and the related Regulations.

## 10. Fraud and irregular activities

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The audit committee considered the quarterly reports from the forensic investigations unit of the municipality on the investigations conducted, the nature of the incidents and the outcomes of the investigations. The anonymous fraud hotline introduced in prior years has enhanced incident reporting, and enabled the reporting of incidents by communities and external parties. As a result of these initiatives, there has been a significant increase in the number of reported incidents. Assurance has been obtained from the municipality that it has the capacity to respond to the items being reported.

The unit has emphasised fruitless and wasteful expenditure, irregular expenditure and supply chain management deviations. The investigations also included instances of non compliance with supply chain management regulation 44, which prohibits officials employed by the state from doing business with the municipality.

One significant area that requires improvement is for management to effectively implement appropriate recourse and mitigation actions based on the outcomes of investigations, as required by sections 32, 171, 172 and 173 of the MFMA.

## 11. Evaluation of the annual financial statements

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The audit committee has reviewed the annual financial statements, which focused on the following:

- Significant financial reporting judgements and estimates contained in the annual financial statements.
- Clarity and completeness of disclosures and whether disclosures made have been set properly in context.
- Quality and acceptability of, and any changes in, accounting policies and practices.
- Compliance with accounting standards and legal requirements.
- Significant adjustments and/or unadjusted differences resulting from the audit.
- Reflection of unusual circumstances or events and management's explanation for the accounting treatment adopted.
- Reasons for major year-on-year fluctuations.
- Asset valuations and revaluations.
- Calculation and levels of general and specific provisions.
- Write-offs and reserve transfers.
- The basis for the going concern assumption, including any financial sustainability risks and issues.

Except for the matters identified by the external auditors in the auditor's report, the audit committee is comfortable that the annual financial statements have been prepared in terms of GRAP and the MFMA.

## 12.External auditor's report

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The audit committee concurs with and accepts the conclusion and audit opinion of the external auditors a on the annual financial statements. The committee is of the view that the audited financial statements be accepted and read together with the report of the external auditors. The audit committee confirms that it has been actively involved throughout the audit process and has been thoroughly appraised of the issues giving rise to the audit opinion.

The audit committee also concurs with the material findings on the reported performance information and compliance with legislation.

The committee is comfortable that given the implementation of effective and efficient controls, these matters should be adequately dealt with in future periods.

The external audit function, performed by the Auditor General South Africa is independent of the entity. The audit committee has met with the external auditors to ensure that there are no unresolved issues and acknowledges the diligence and cooperation of the external audit team.

On behalf of the audit and risk committee:

Dr A  
Audit Committee Chair  
Municipality  
30 November 20XX

### Illustration 2 PFMA

1. PFMA reference to PFMA requirements
2. List AC members and meeting attendance
3. Audit committee's responsibilities
4. Effectiveness of internal control
5. Quality of reports
6. Internal audit
7. Risk management
8. Finance function
9. Performance management
10. Annual Financial Statements
11. External auditor's report

## 123 PUBLIC ENTITY / DEPARTMENT AUDIT COMMITTEE REPORT FOR THE YEAR ENDED 31 MARCH 20XX

### 1. Legislative requirements

The audit committee herewith presents its report for the financial year ended 31 March 20XX, as required by section 77 of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended by Act No. 29 of 1999) (PFMA) read with **[treasury regulation 3.1.13 (department) or 27.1.10 (public entity)]**.

### 2. Audit committee members and attendance

The audit committee was established in accordance with **[sections 38(1)(a)(ii) or sections 51(1)(a)(ii)]** and 77 of the PFMA. The audit committee charter requires that the audit committee comprises a minimum of three members and a maximum of XXX members, **[the majority of whom should be from outside the public service (department) or the majority of whom should be non-executive members, although committee members need not all be members of the accounting authority (public entity)]**.

The audit committee comprises five members, including the chair, Dr A. In terms of section 77(b) of the PFMA, the audit committee must meet at least twice a year. During the financial year ended 31 March 20XX, the audit committee met on seven occasions. The table below shows the attendance of these meetings:

Name	Date of appointment	Qualifications	Number of meetings scheduled	Number of meetings attended
Dr A (chair)	1 September 2012	B Com, higher diploma in accounting, PhD commerce, CA(SA)	7	7
Mr H	1 July 2015	B Compt, B Compt hons, CTA, CA(SA)	4	3
Ms M	1 July 2015	BSc (mechanical engineering)	4	4
Ms H	1 July 2015	LLB	4	4
Mr R	1 March 2014	MBA public finance management	7	6

The members of the audit committee held meetings with the **[accounting officer or accounting authority]**, senior management of the **[department or public entity]**, internal audit function and the external auditors, collectively and individually, on matters related to governance, internal control and risk in the **[department or public entity]**, throughout the reporting period. The committee also held a meeting with the honourable **[minister or member of the executive committee]** to report on governance, internal control, risk, performance and financial information and other relevant matters concerning the **[department or public entity]**.

### 3. Audit committee's responsibility

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The audit committee has complied with its responsibilities arising from **[section 38(1)(a)(ii) of the PFMA read with treasury regulation 3.1.10 or section 51(1)(a)(ii) of the PFMA read with treasury regulation 27.1.8]**, and reports that it operated in terms of the audit committee charter read in conjunction with the internal audit charter.

### 4. Effectiveness of internal control

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The audit committee acknowledges management's efforts to strengthen internal controls in the **[department or public entity]**. There is a need for increased technical support, monitoring and evaluation from head office to unlock the full potential of these efforts.

The audit committee is concerned that in certain instances the matters reported by the external auditors and the internal audit function in prior years have not been fully and satisfactorily addressed. Management has provided assurance that effective corrective action will be implemented in respect of all internal control weaknesses, and the audit committee will monitor these going forward.

Vacancies undermine the effective functioning of the system of internal control and it is imperative that management reviews its recruitment procedures and processes to ensure that vacancies are filled expeditiously with properly qualified, skilled and experienced personnel.

The **[department or public entity]** has adopted aggressive anti-corruption measures to curb the frequency and magnitude of fraud and corruption. The audit committee is not completely satisfied with the prevention of fraud and these concerns have been raised with management. The audit committee has requested that a detailed fraud prevention plan and progress reports on the action plans for addressing the fraud risks be tabled at each quarterly meeting of the audit committee.

Due to the strategic importance of, and investment in, the modernisation of information and communication technology (ICT) in the **[department or public entity]**, the audit committee has monitored the risk register and progress reports on the respective action plans during the year under review. The audit committee remains concerned that not all ICT risks are being addressed or mitigated, in implementing the new systems.

### 5. The quality of monthly and quarterly reports submitted in terms of the PFMA and DORA

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The audit committee is satisfied with the content and quality of management and quarterly reports prepared and issued during the year under review in compliance with the statutory framework. The audit committee has engaged with management to remedy shortcomings, especially relating to reports on performance against predetermined objectives.

The audit committee has recommended that the **[department or public entity]** prepare interim financial statements that comply with the financial reporting framework **[Modified Cash Standard (MCS) or Standards of Generally Recognised Accounting Practice (GRAP)]**, which could assist in performing reconciliations timeously as well as in eliminating year-end adjustments.

The audit committee has reviewed and commented on the **[department or public entity's]** annual financial statements and report on performance information and their timely submission to the external auditors by 31 May.

The audit committee has reviewed the reports issued to National Treasury and the Transferring Officer in terms of the Division of Revenue Act and is comfortable that the Municipality is meeting its obligation in terms of DORA and have recognised revenue to the extent that conditions have been met.

The audit committee has reviewed reports that the Department has received in terms of DORA as the Transferring Officer, and is comfortable that the Department is exercising its oversight responsibilities in terms of DORA and ensuring that the funds are utilised for the purpose as described in the Business Plan and DORA.

### 6. Internal audit function

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The **[accounting officer or accounting authority]** is obliged, in terms of the PFMA, to ensure that the entity has a system of internal audit under the control and direction of the audit committee. The audit committee is satisfied that the internal audit function has properly discharged its functions and responsibilities during the year under review.

The capacity of the internal audit function has been enhanced through the redesign of the internal audit process, employment of additional personnel and investment in an intensive training programme. The audit committee expects these initiatives to contribute to the internal audit function becoming

more efficient, more responsive to challenges and better able to provide audit reports of a high quality to management and the committee on a timely basis. The audit committee supports the direction that the internal audit function is adopting in providing the necessary skills and agility required for the function to respond quickly and effectively to the demands for internal audit across the [department or public entity]'s different locations. The internal audit capacity was enhanced through co-sourcing parts of the internal audit function to R Auditors. The recent appointment of specialist ICT auditors is a welcome development in light of the need for expertise in the auditing of automated systems and the development and maintenance of a system of continuous auditing.

The committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the {**department or public entity**}.

The audit committee is satisfied that the internal audit function maintains an effective internal quality assurance and programme that covers all aspects of the internal audit activity. The internal assessment indicates that all significant areas of non-conformance identified in the previous year's external quality assessment review have been rectified and thus a generally "conforms rating" can be applied to the internal audit work and the term "Conforms with the International Standards for the Professional Practice of Internal Auditing" may be used by the function.

## 7. Risk management function

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The audit committee is responsible for the oversight of the risk management function. The risk management committee reports to the audit committee on the [department or public entity]'s management of risk. To ensure that the risk management committee understands the requirements of the audit committee, a member of the audit committee currently serves as a member of the risk management committee.

The audit committee is concerned with the risk function being understaffed, which will result in non-delivery by the function if the situation is not addressed. The committee has reviewed the risk register and the reports from the risk committee and is generally satisfied with the maturity of the risk management process.

## 8. Evaluation of the finance function

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As the chief financial officer was only appointed on 1 March 20XX, the finance function could not perform at its optimal capacity with the vacuum that existed in the leadership. Prior to the appointment of the chief financial officer, there was a huge strain on the finance function to deliver quality information on a timely basis.

On the whole, the audit committee is satisfied with the [department or public entity]'s finance function during the year under review.

## 9. Performance management

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Part of the responsibilities of the audit committee includes the review of performance management. The audit committee has in terms of the performance of the Department /Public entity performed the following functions:

- Review and comment on compliance with statutory requirements and performance management best practices and standards.
- Review and comment on the alignment of the annual performance plan, budget, strategic plan, corporate plan and performance agreements.
- Review and comment on the relevance of indicators to ensure that they are measurable and relate to services performed by the department public entity.
- Review of reported noncompliance with legislation
- Review of compliance with in year reporting requirements
- Review of the quarterly performance reports submitted by the internal audit function
- Review and comment on the department's/public entity's performance management system and making recommendations for its improvement.

The audit committee is satisfied that the performance report has been prepared in terms of the PFMA, the Treasury Regulations and any other related regulatory requirements for reporting performance.

## 10. Evaluation of the annual financial statements

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The audit committee has reviewed the annual financial statements, which focused on the following:

- Significant financial reporting judgements and estimates contained in the annual financial statements.
- Clarity and completeness of disclosures and whether disclosures made have been set properly in context.
- Quality and acceptability of, and any changes in, accounting policies and practices.
- Compliance with accounting standards and legal requirements.
- Significant adjustments and/or unadjusted differences resulting from the audit.
- Reflection of unusual circumstances or events and management's explanation for the accounting treatment adopted.
- Reasons for major year-on-year fluctuations.
- Asset valuations and revaluations.
- Calculation and levels of general and specific provisions.
- Write-offs and reserve transfers.
- The basis for the going concern assumption, including any financial sustainability risks and issues.

Except for the matters identified by the auditor-general in the audit report, the audit committee is comfortable that the annual financial statements have been prepared in terms of **{the MCS or GRAP}** and the PFMA.

## 11. External auditor's report

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The audit committee concurs with and accepts the conclusion and audit opinion of the external auditors on the annual financial statements. The committee is of the view that the audited financial statements be accepted and read together with the report of the external auditors. The audit committee confirms that it has been actively involved throughout the audit process and has been thoroughly appraised of the issues giving rise to the audit opinion.

The audit committee concurs with the material findings on the reported performance information and compliance with legislation.

The external audit function, performed by the R auditors, is independent of the entity. The audit committee has met with the external auditors to ensure that there are no unresolved issues, and acknowledges the diligence and cooperation of the external audit team.

On behalf of the audit and risk committee:

Dr A  
Audit Committee Chair  
**[Department or Public Entity]**  
31 July 20XX

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