

### 3. REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the year ended 31 March 2004.

#### Audit committee members and attendance

The Audit Committee consisted of 4 external members. The Committee met once during the period under review. The term of office of these committee members has expired and a new audit committee will be appointed soon.

#### Meeting for 2003/2004

Name of member	Attended	Apologies	Total
Mr Byron Potgieter (Chairperson)	1	0	1
Mr Vuyisa Mati	1	0	1
Ms Patience Mnxasana	1	0	1
Mr B Mahlangu	0	1	1

#### Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 38 (1) (a) of the PFMA and Treasury Regulation 3.1.13. The Committee also reports that it has adopted the terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

#### Effectiveness of Internal Control

The Committee noted various items, which the Office of the Auditor General listed as impacting on the internal control and their categorisation into rating classification of fundamental, significant and housekeeping. Although the Auditor General has not reported any significant financial loss, the Committee views the non-compliance with the Division of Revenue Act and the Preferential Procurement Policy Framework seriously. Management has acknowledged that these issues must be addressed and has given assurance that measures are being introduced to correct this matter and to monitor progress and utilisation of the grants that are transferred to provinces. The new Audit Committee would have to ensure that progress in addressing these issues is monitored.

In an attempt to rectify the matters of emphasis raised in the Auditor General's report and other deficiencies, a risk assessment for the ensuing financial year has been conducted, and strategic risk areas were prioritised for examination by the Internal Audit Function and an annual coverage plan based on the risk assessment has been compiled. Furthermore, a draft fraud prevention plan has been compiled and will be completed soon. This will ensure that matters relating to internal controls are appropriately dealt with.

#### Quality of Management and Monthly/Quarterly Reports Submitted in Terms of the Act and the Division of Revenue Act.

Due to the fact that the Audit Committee met once during this period, no reports were submitted to the Committee. We are therefore in no position to comment on the content and quality of these reports.

### Internal Audit Function

The committee co-ordinates and monitors the activities of the Internal Audit Function. Through this, the committee is able to report on the effectiveness and efficiency of the Unit. There has been however, serious lack of holding of meetings for the audit committee owing to long periods of vacancy in the Internal Audit Function.

The Department did not have an Internal Audit function for the greater part of the period under review. The work has been outsourced to Internal Audit Service providers. However, the Deputy Director: Internal Audit has been appointed and assumed duty in July 2004, other positions will be filled soon.

### Evaluation of Financial Statements

The Audit Committee has reviewed Department's audited annual financial statements, the management letter issued by the Auditor-General as well as the accounting policies and practices. The Committee is satisfied that they fairly present the activities of the Department and they have been prepared in terms of section (40)(1)(d) of the PFMA and section 18.3.1 of the Treasury Regulations.

### Other

We report that during the year under review, the Department has not provided sufficient support and commitment to ensuring that the Internal Audit and the Audit Committee's functioning were effective. Even though the terms of engagement of the current members expired during this period, concerted effort is required from the Accounting Officer and Senior Management of the Department in this regard, as the situation will continue to result in non-compliance with the provisions of the Public Finance Management Act, (Act 1 of 1999, as amended), the related Treasury Regulations and may constitute serious breach of principles of good corporate governance. No Internal Audit Function or Audit Committee can be effective without such support.

The Committee wishes to thank the Department and the Office of the Auditor-General for their contribution towards its effective functioning. The Audit Committee would also like to wish the new Committee well.



### Mr Byron Potgieter

Chairperson of the Audit Committee

