

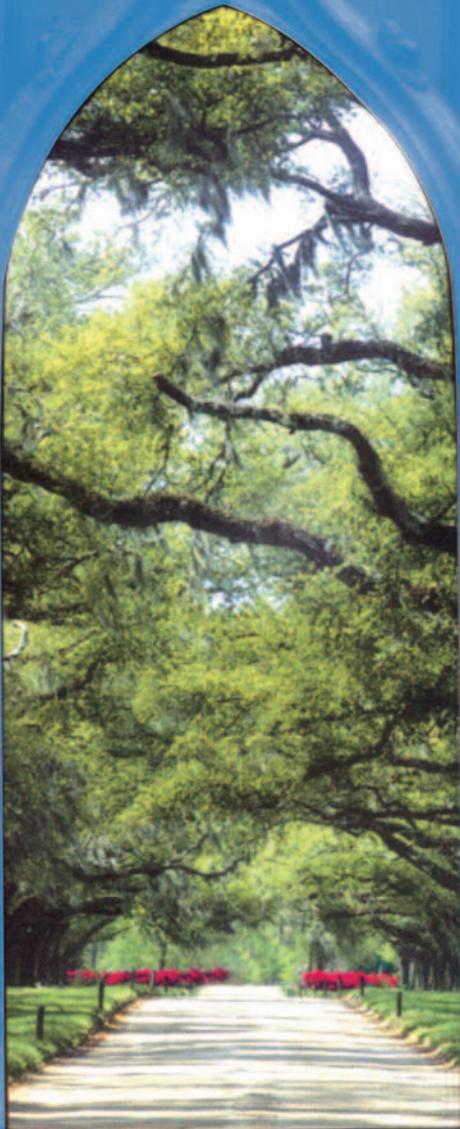


# Audit Committee Forum<sup>TM</sup>

## Alert 4

Issue Date: December 2009

**The audit committee's role with regard to the finance function  
and internal audit – King III**



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## The audit committee's role with regard to the finance function and internal audit – King III

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*This Alert is being issued ahead of the relevant effective date<sup>1</sup> of King III as a guideline to inform entities and afford them the opportunity to prepare themselves for these requirements.*

<sup>1</sup> King III is effective 1 March 2010

**Unless otherwise stated, all references in this document relate to extracts from “The King Report on Governance for South Africa” (King III), Chapter 3. These sections have been reproduced with the permission of the Institute of Directors in Southern Africa.**

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#### Internal audit function

**Para 53**

*“The audit committee should play a key role in ensuring that the company’s internal audit function is independent and has the necessary resources, budget, standing and authority within the company to enable it to discharge its functions.”*

The audit committee should be responsible for overseeing internal audit, including the:

- *“Appointment, performance assessment and dismissal of the chief audit executive (CAE)” – Para 54*
- *“Approving the internal audit plan and overseeing the staffing and objectives of the internal audit function” – Para 55*
- *“Ensuring that the internal audit function is subject to an independent quality review, either in line with the IIA standards or when the committee determines it appropriate, as a measure to ensure the function remains effective” – Para 57*
- Evaluation of the *“performance of the internal audit function every year to ensure that internal audit is fulfilling its responsibility to assist and advise the audit committee and the board”*
- Ensuring *“that the internal audit function is appropriately resourced and has an appropriate budget”*. – Chap 7, Para 26

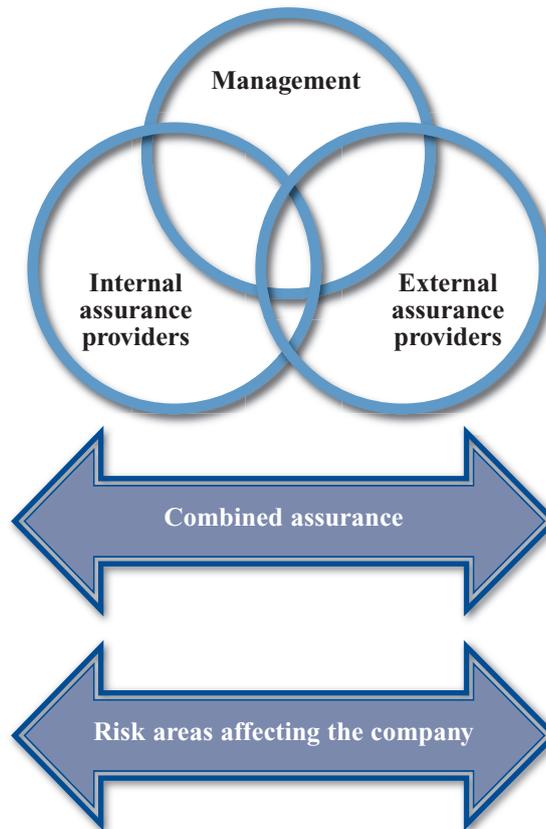
**Para 24**

*“Internal audit should establish and maintain a strong working relationship with the audit committee. The CAE should report functionally to the audit committee chairman.”*

**Chap 7, Para 28**

*“Internal audit should report at all audit committee meetings and consider meeting with the audit committee chairman before and immediately after each audit committee meeting.”*

## Combined Assurance



### Para 56

*“The audit committee should encourage cooperation between external and internal audit. The internal and external audit functions, however, have different scopes and purposes. The area of assurance overlap between internal and external audit should be such that it optimises the combined assurance obtained from these assurance providers.”*

### Paras 46-50

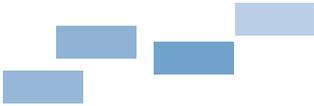
*“A combined assurance model aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers on the risk areas affecting the company.*

*The audit committee should be responsible for monitoring the appropriateness of the company’s combined assurance model and ensuring that significant risks facing the company are adequately addressed.*

*The combined assurance provided by internal and external assurance providers and management should be sufficient to satisfy the audit committee that significant risk areas within the company have been adequately addressed and suitable controls exist to mitigate and reduce these risks.*

*External assurance providers may include the external auditor, regulators (inspectorate) or any other external assurance providers such as sustainability assurance providers, actuaries and geologists. The relationship between the external assurance providers and the company should be monitored by the audit committee.*

*By providing an effective counterbalance to an executive management, audit committees uphold the independence of internal and external assurance providers, thus helping to ensure that these functions are carried out effectively.”*



## Finance function

### Para 51

*“Every year, the audit committee should consider and satisfy 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 finance function. The results of the review should be disclosed in the integrated report.”*

### Para 52

*“Listed companies must have a finance director and the audit committee must evaluate the suitability of the expertise and experience of the finance director and recommend to the board if any changes are necessary.”*

In addition, in terms of the JSE listing requirements, the audit committee must consider and be satisfied of, on an annual basis, the appropriateness of the expertise and experience of the financial director, and the company must confirm this by reporting to the shareholders in its annual report that the audit committee has executed this responsibility.

## Internal financial controls Paras 66-68

### Paras 66-68

*“The internal audit function should at least once a year conduct a formal documented review of the design, implementation and effectiveness of the company’s system of internal financial controls by conducting suitable testing and report back to the audit committee. This enables the audit committee to perform its responsibilities to monitor the integrity of the company’s financial information and comment on the effectiveness of internal financial controls.*

*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. Internal audit’s review should cover all significant areas of financial reporting to enable the audit committee to perform its responsibilities to oversee the integrity of the integrated report, specifically financial information published by the company.*

*The audit committee should ensure that internal audit has adequate capacity to perform such formal documented review. Management may assist internal audit to perform the review.*

*It is not required that the internal audit report be made available publicly, nor is external auditor attestation on internal financial controls a requirement.”*

## Reporting

### Para 69

*“The audit committee must conclude and report yearly to the stakeholders and the board on the effectiveness of the company’s internal financial controls. Before the audit committee concludes and reports to the board on the effectiveness of internal financial controls, it should holistically consider all information brought to its attention from all sources, including communications with, and reports from, internal audit, other assurance providers and the management, as well as the external auditors.”*

### Chap7, Para 10

*“Internal audit should ensure that the internal audit reporting meets management and audit committee requirements.”*

### Para 70

*“Weaknesses in financial control, whether from design, implementation or execution, that are considered material (individually or in combination with other weaknesses) and that resulted in actual material financial loss, fraud or material errors, should be reported to the board and the stakeholders. It is not intended that this disclosure be made in the form of an exhaustive list, but rather an acknowledgement of the nature and extent of material weaknesses and the corrective action, if any, that has been taken to date of the report.”*

With regard to internal audit, the audit committee should provide the following information in the integrated report:

### Paras 85.5 & 85.6

- “A statement on whether or not the audit committee considered and recommended the internal audit charter for approval by the board
- A description of the working relationship with the chief audit executive”.

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162.9%
57.6%
5.1%
1%
6

Yield	Maturity	Current	One-day change
6.700	Jan. 30, '18	1461	-286
5.875	May 10, '12	3820	-270
6.750	March 15, '12	786	-180
7.625	Nov. 30, '12	949	-131
5.750	Sept. 8, '11	953	-116
7.995	June 1, '36	787	-101
6.875	Feb. 1, '14	694	-84
5.500	Nov. 15, '12	821	-3

