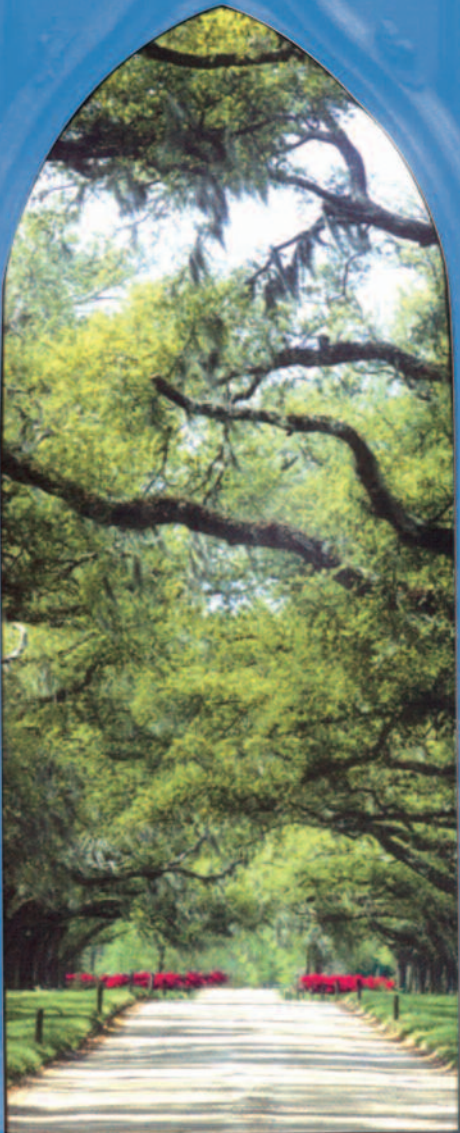




Audit Committee ForumTM Alert 6

Issue Date: January 2010

The audit committee's role with regard to external audit



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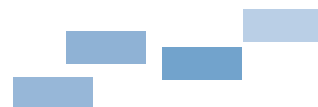
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This Alert is being issued ahead of the relevant effective dates¹ of the Companies Act and King III as a guideline to inform entities and afford them the opportunity to prepare themselves for these requirements.

Unless otherwise stated, all references in this document relate to paragraphs from:

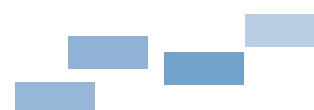
- **The Companies Act, 2008, Chapter 3**
- **“The King Report on Governance for South Africa” (King III), Chapter 3. These extracts have been reproduced with the permission of the Institute of Directors in Southern Africa.**

¹ The effective dates are: King III effective 1 March 2010; Companies Act no notice of effective date yet.



Companies Act		King III
Appointment	<p>Section 94(7)(a)</p> <p><i>“to nominate, for appointment as auditor of the company...a registered auditor who, in the opinion of the audit committee, is independent of the company”</i></p>	<p>Paragraph 75</p> <p><i>“The audit committee must recommend to shareholders the appointment, reappointment and removal of the external auditor.</i></p> <p><i>Where the audit committee recommends to shareholders that the incumbent auditing firm and designated auditor (a statutory responsibility for public companies and state-owned companies in terms of the Act) should be appointed as the external auditor, its recommendation should be based on an assessment of the auditing firm and the individuals’ qualifications, expertise and resources, effectiveness and independence.</i></p> <p><i>The audit committee should ensure that the external auditor that is recommended for appointment is approved by the JSE (applicable only to listed companies).”</i></p>
Fees and terms of engagement	<p>Section 94(7)(b)</p> <p><i>“to determine the fees to be paid to the auditor and the auditor’s terms of engagement”</i></p>	<p>Paragraph 76</p> <p><i>“The audit committee must approve the external auditor’s terms of engagement and remuneration. In doing so, it should engage with the auditor to satisfy itself that the level of remuneration is appropriate to enable an effective audit to be conducted.”</i></p>
Legislation	<p>Section 94(7)(c)</p> <p><i>“to ensure that the appointment of the auditor complies with the provisions of this Act and any other legislation relating to the appointment of auditors”</i></p>	
Non-audit services	<p>Section 94(7)(d)</p> <p><i>“to determine..., the nature and extent of any non-audit services that the auditor may provide to the company, or that the auditor must not provide to the company, or a related company”</i></p>	<p>Paragraph 78</p> <p><i>“The audit committee must define a policy for board approval, addressing the nature, extent and terms under which the external auditor may perform non-audit services.”</i></p>
Pre-approval	<p>Section 94(7)(e)</p> <p><i>“to pre-approve any proposed agreement with the auditor for the provision of non-audit services to the company.”</i></p>	<p>Paragraph 79</p> <p><i>“The audit committee can pre-authorise services proposed for a future date within the policy framework set by the committee”</i></p>

	Companies Act	King III
Report	<p>Section 94(7)(f)</p> <p><i>“to prepare a report, to be included in the annual financial statements for that financial year –</i></p> <ul style="list-style-type: none"> ■ <i>stating whether the audit committee is satisfied that the auditor was independent of the company;...”</i> 	<p>Paragraph 79</p> <p><i>“The annual financial statements should include a description of non-audit services rendered by the external auditor, including the nature and quantity thereof.”</i></p> <p>Paragraph 77</p> <p><i>“The audit committee must review, monitor and report on the external auditor’s independence and objectivity, and should assess the effectiveness of the audit process every year.”</i></p>
Independence	<p>Section 92(1)</p> <p><i>“The same individual may not serve as the auditor or designated auditor of a company for more than five consecutive financial years”</i></p> <p>Section 94(8)</p> <p><i>“In considering whether...a registered auditor is independent of the company, the audit committee of that company must-</i></p> <ul style="list-style-type: none"> ■ <i>ascertain that the auditor does not receive any direct or indirect remuneration or other benefits from the company, except-</i> <ul style="list-style-type: none"> - <i>as auditor; or</i> - <i>for rendering other services to the company, to the extent permitted...;</i> ■ <i>consider whether the auditor’s independence may have been prejudiced-</i> <ul style="list-style-type: none"> - <i>as a result of any previous appointment as auditor; or</i> - <i>having regard to the extent of any consultancy, advisory or other work undertaken by the auditor for the company;</i> ■ <i>consider compliance with other criteria relating to independence or conflict of interest as prescribed by the Independent Regulatory Board for Auditors established by the Auditing Profession Act,</i> <p><i>in relation to the company, and if the company is a member of a group of companies, any other company within that group.”</i></p>	<p>Paragraph 77</p> <p><i>At least five yearly, rotation at an individual engagement partner or designated partner level enhances actual and perceived independence.”</i></p> <p>See paragraphs 79 and 77 above</p>



Companies Act		King III
Appointment of auditor other than the one nominated	<p>Section 94(9)</p> <p><i>“Nothing in this section precludes the appointment by a public company at its annual general meeting of an auditor other than one nominated by the audit committee, but if such an auditor is appointed, the appointment is valid only if the audit committee is satisfied that the proposed auditor is independent of the company.”</i></p>	
Duties of board	<p>Section 94(10)</p> <p><i>“Neither the appointment nor the duties of an audit committee reduce the functions and duties of the board or the directors of the company, except with respect to the appointment, fees and terms of engagement of the auditor.”</i></p>	<p>Paragraph 22</p> <p><i>“Legal opinion indicates that the audit committee takes primary responsibility for and has the ultimate decision-making ability regarding its statutory duties. If differences of opinion should arise between the board and the audit committee where the audit committee’s statutory functions are concerned, the audit committee’s decision will prevail.”</i></p>
Reportable irregularities		<p>Paragraph 81</p> <p><i>“The board should develop a process to ensure that the audit committee receives notice of reportable irregularities that have been reported by the external auditor to the Independent Regulatory Board for Auditors. Where the auditor’s report is modified as a result of a reportable irregularity, the audit committee should review the completeness and accuracy of the disclosure of such matters in the financial statements.”</i></p>
Audit process		<p>Paragraph 82</p> <p><i>“At the end of each annual audit, the audit committee should review the quality and effectiveness of the audit process. It should assess whether the external auditors have performed the audit as planned and establish the reasons for any changes, obtaining feedback as necessary about the conduct of the audit from key members of the company’s management, including the finance director and the chief audit executive.”</i></p>

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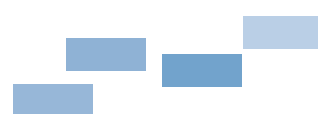
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