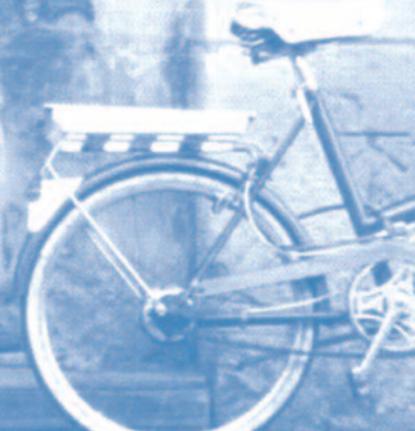
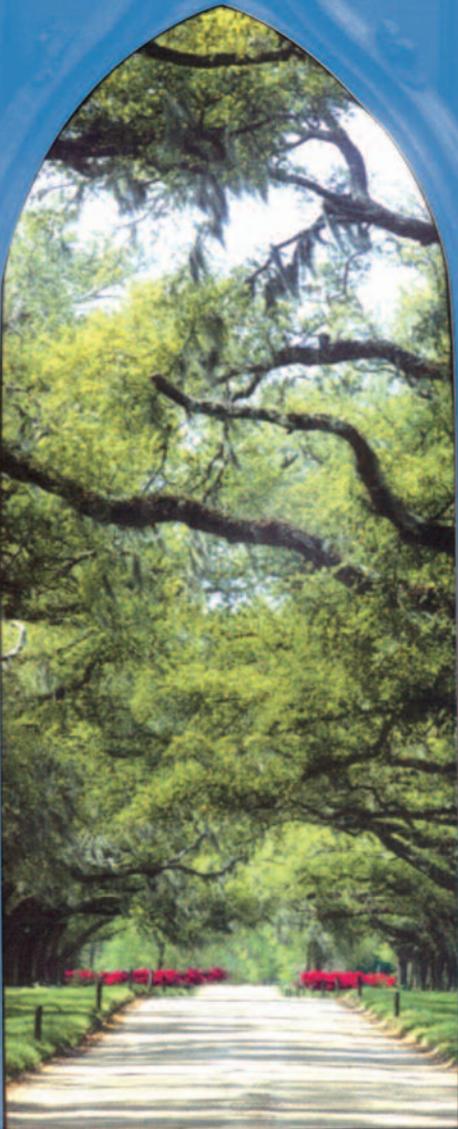




Audit Committee ForumTM Alert 8

Issue Date: February 2010

The audit committee report to be included in the annual report



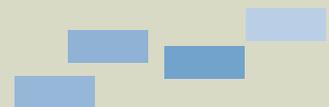
The Audit Committee ForumTM is proudly sponsored by KPMG.

The audit committee report to be included in the annual report



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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 and afford entities the opportunity to prepare themselves for these requirements.



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

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.

In this Alert, various reports have been mentioned. In the interest of clarity:

Integrated Report – King III, Chapter 9, Paragraph 1 (Refer to ACF Alert 3)

“Integrated reporting means a holistic and integrated representation of the company’s performance in terms of both its finances and its sustainability. This can take the form of a single report or dual reports. This emphasis is on substance over form and integration should not be reduced merely to the manifestation in physical terms of one or more documents. While a truly integrated report should be presented in one document, it can be presented in more than one document. If the integrated report encompasses more than one document, the document should be made available at the same time and disclosed as an integrated report.”

The integrated report would include:

- Annual financial statements
- Sustainability report
- Audit committee report
- Annual report.

Audit Committee Report is the report by the audit committee (as required by the Companies Act), to be inserted into the annual financial statements. Where annual results are produced as an integrated report or as an annual report, this audit committee report would form part of that specific report.

Companies Act, 2008

“An audit committee of a company has the following duties:

- (a) To nominate, for appointment as auditor of the company under section 90, a registered auditor who, in the opinion of the audit committee, is independent of the company*
- (b) To determine the fees to be paid to the auditor and the auditor’s terms of engagement*
- (c) 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*
- (d) To determine, subject to the provisions of this Chapter, the nature and extent of 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*
- (e) To pre-approve any proposed agreement with the auditor for the provision of non-audit services to the company*
- (f) To prepare a report, to be included in the annual financial statements for that financial year-*
 - describing how the audit committee carried out its functions;*
 - stating whether the audit committee is satisfied that the auditor was independent of the company*
 - commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company*
- (g) To receive and deal appropriately with any concerns or complaints, whether from within or outside the company, or on its own initiative, relating to-*
 - The accounting practices and internal audit of the company*
 - The content or auditing of the company’s financial statements*
 - The internal financial controls of the company*
 - Any related matter*
- (h) To make submissions to the board on any matter concerning the company’s accounting policies, financial control, records and reporting*
- (i) To perform other functions determined by the board, including the development and implementation of a policy and plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes within the company.*

King III

- 24 Every year all companies should prepare an integrated report that conveys adequate information about the social, economic and environmental impact of the company on the community in which it operates.*
- 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 financial function. The results of the review should be disclosed in the integrated report.*
- 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.*
- 83 The audit committee should report internally to the board on how it has discharged its duties, statutory as well as those assigned to it by the board, during the financial year.*

84 *The audit committee must also report to the shareholders at the AGM on how it has fulfilled its duties in terms of the Act during the financial year. The audit committee's report at the AGM must:*

- *describe how the audit committee carried out its functions in terms of the Act*
- *state whether the audit committee is satisfied that the external auditor was independent of the company*
- *contain comment in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company.*

85 *As a minimum, the audit committee should provide the following information in the integrated report:*

- *a summary of the role of the audit committee*
- *a statement on whether or not the audit committee has adopted a formal terms of reference that have been approved by the board and if so, whether the committee satisfied its responsibilities for the year in compliance with its terms of reference*
- *the names and qualifications of all members of the audit committee during the period under review, and the period for which they served on the committee*
- *the number of audit committee meetings held during the period under review and members' attendance at these meetings*
- *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*
- *information about any other responsibilities assigned to the audit committee by the board*
- *a statement on whether the audit committee complied with its legal, regulatory or other responsibilities*
- *a statement on whether or not the audit committee recommended the integrated report to the board for approval.*

5 *The integrated report should be prepared every year and should convey adequate information about the operations of the company, the sustainability issues pertinent to its business, the financial results, and the results of its operations and cash flows.*

Chapter 9

JSE

In addition, JSE listing requirements paragraph 3.84 states that “*the audit committee must consider, on an annual basis, and satisfy itself of the appropriateness of the expertise and experience of the financial director and the applicant issuer must confirm this by reporting to shareholders in its annual report that the audit committee has executed this responsibility.*”

Example audit committee report

- This template has been drafted on a basis assuming that no negative issues were identified. Where there are unresolved fundamental issues/breakdowns etc, then it would be important for the audit committee to disclose this to the shareholders for e.g. Internal control weaknesses, fraud etc
- This document is detailed and may be tailored and abbreviated to suit the entity's needs
- Where particular information is disclosed elsewhere in the integrated report/annual report/corporate governance report the audit committee report may contain appropriate cross-references. (Items which may be dealt with in this manner are reflected in light type).

Report of the Audit Committee

for the year ended 31 December 2010

The audit committee is a committee of the board of directors and in addition to having specific statutory responsibilities to the shareholders in terms of the Companies Act, it assists the board through advising and making submissions on financial reporting, oversight of the risk management process and internal financial controls, external and internal audit functions and statutory and regulatory compliance of the company.

Terms of reference (refer to ACF Alert 7)

The audit committee has adopted formal terms of reference that have been approved by the board of directors, and has executed its duties during the past financial year in accordance with these terms of reference.

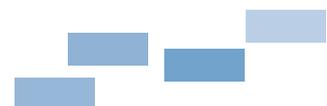
Composition

The committee consists of three independent non-executive directors.

At 31 December 2010 the audit committee comprised/Details of the audit committee members are set out in Note xx:

Name	Qualifications	Period Served
Mr John Davis	(Chairman)	1 Jan 2006 – 31 Dec 2010
Mr Richard Bush	CA(SA)	1 Jan 2008 – 31 Dec 2010
Mrs Lucinda Shaw	Attorney	1 Jan 2006 – 31 Dec 2010

The chief executive officer, the finance director, senior financial executives of the group and representatives from the external and internal auditors attend the committee meetings by invitation only. The internal and external auditors have unrestricted access to the audit committee.



Meetings

The audit committee held four meetings during the period.

Attendance at these meetings is shown in the table below:/Details of audit committee members attendance at meetings is set out in Note xx

Director	2010-02-19	2010-05-31	2010-07-30	2010-11-16
Mr John Davis	√	√	√	√
Mr Richard Bush	√	√	X	X
Mrs Lucinda Shaw	X	√	√	√

Statutory duties

In execution of its statutory duties during the past financial year, the audit committee:

- Nominated for appointment as auditor, ABC Inc who, in our opinion is independent of the company
- Determined the fees to be paid to ABC Inc as disclosed in Note x
- Determined ABC Inc's terms of engagement
- Believes that the appointment of ABC Inc complies with the relevant provisions of the Companies Act, [insert other relevant legislation] and King III
- Developed and implemented a policy setting out the categories of non-audit services that the external auditors may and may not provide, split between permitted, permissible and prohibited services
- Pre-approved all non-audit service contracts with ABC Inc
- Received no complaints relating to the accounting practices and internal audit of the company, the content or auditing of its financial statements, the internal financial controls of the company, and other any related matters
- Made the following submissions to the board on matters concerning the company's accounting policies, financial control, records and reporting and:
 - We concur that the adoption of the going concern premise in the preparation of the financial statements is appropriate
 - [insert other submissions].

Delegated duties [include from terms of reference]

Oversight of risk management

The committee has:

- Received assurance that the process and procedures followed by the risk management committee are adequate to ensure that financial risks are identified and monitored
- The committee has satisfied itself that the following areas have been appropriately addressed:
 - Financial reporting risks
 - Internal financial controls
 - Fraud risks as it relates to financial reporting
 - IT risks as it related to financial reporting
- Reviewed tax and technology risks, in particular how they are managed.

Internal financial controls

- Reviewed the effectiveness of the company's system of internal financial controls including receiving assurance from management, internal audit and external audit
- Reviewed significant issues raised by the internal and external audit process
- Reviewed policies and procedures for preventing and detecting fraud.

Based on the processes and assurances obtained, we believe that significant internal financial controls are effective.

Regulatory compliance

The audit committee has complied with all applicable legal and regulatory responsibilities.

External audit

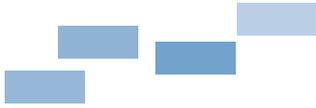
Based on processes followed and assurances received, nothing has come to our attention with regards to the external auditor's independence.

Details of the external auditor's fees are set out in Note xx

Fees	R 000's	% of Total
Mr John Davis	xx	xx%
Mr Richard Bush	xx	xx%
Mrs Lucinda Shaw	xx	xx%
Total	xx	

Based on our satisfaction with the results of the activities outlined above/in Note xx, we have recommended to the board that ABC Inc should be reappointed for 2011.





Internal audit

The committee has:

- Reviewed and recommended the internal audit charter for approval
- Evaluated the independence, effectiveness and performance of the internal audit function/department and compliance with its mandate
- Satisfied itself that the internal audit function has the necessary resources, budget, standing and authority within the company to enable it to discharge its functions
- Appointed, and assessed the performance of the chief audit executive
- Approved the internal audit plan
- Encouraged cooperation between external and internal audit.

The chief audit executive reported functionally to the audit committee and had unrestricted access to the audit committee chairman.

Finance function

We believe that Mr Leon Smith, the group finance director, possesses the appropriate expertise and experience to meet his responsibilities in that position as required by the JSE.

We are satisfied with the:

- expertise and adequacy of resources within the finance function
- experience of the financial manager.

In making these assessments, we have obtained feedback from both external and internal audit.

Based on the processes and assurances obtained, we believe that the accounting practices are effective.

Integrated report

Based on processes and assurances obtained, we recommend the integrated report to the board for approval.

On behalf of the audit committee

Mr John Davis (Chairman)

[date]



Contact details:

Thinglemony Pather

Director

KPMG

thingle.pather@kpmg.co.za

011 647 5037

www.acf.co.za

Parmi Natesan

Senior Manager

KPMG

parmi.natesan@kpmg.co.za

011 647 5963

www.acf.co.za

