

# PART C: REPORT OF THE AUDIT COMMITTEE



# PART C: REPORT OF THE AUDIT COMMITTEE

## I. Overview

We present our report for the financial year ended 31 March 2004.

### I.1 Audit Committee Members

The Audit Committee consists of the members listed hereunder. During the year under review, two meetings were held.

Members of the committee are :

Mr J A Boyd (Chairperson) and Messrs J Pema, W J du Preez and A M Muller (Director-General : DWAF).

Mr B J Mahlangu resigned as a member on 8 March 2004

### I.2 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 Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter, and has attempted to discharge its responsibilities as contained therein.

The Audit Committee has addressed itself to the financial statements of the following units during the period under review :

- Department of Water Affairs and Forestry – Vote 34
- Water Trading Account
- Equipment Trading Account
- National Forest Recreation and Access Trust

### I.2.1 The effectiveness of internal control

Whilst the various reports of the Internal Auditors as well as the Audit Reports on the Annual Financial Statements and management letter of the Auditor General indicates that the system of internal control has shortcomings, the Audit Committee has noted the progress being made in this regard, especially in view of the significant and material non-compliance with prescribed policies and procedures that was reported on during the previous two financial years and the resultant adverse audit opinions.

An independent review of the Internal Audit function was commissioned and a report thereon furnished on the 8 May 2004. The review findings were, inter alia, that the overall quality of Internal Audit is good, with generally a high level of compliance with the standards of the Institute of Internal Auditors. This finding is at variance with that of the Auditor-General, who is of the opinion that audits were not conducted in accordance with the afore-mentioned standards.

The Audit Committee has noted these differences of opinion, and due to the serious nature of the matter, will look into it as a matter of urgency. Internal Audit completed only two of the thirteen focus areas that were identified and approved in the annual operational plan. This is a low level of coverage and reflects the capacity constraints within Internal Audit.

### I.2.2 Risk Management

Following the comprehensive risk assessment exercise undertaken during 2002/3, the Department of Water Affairs and Forestry has developed risk database profiles, and the regular updating of the risk assessment process is facilitated by the Directorate: Internal Audit

### I.2.3 Aspects requiring specific mention

For the current year, the Auditor-General has rendered a Qualified Audit Opinion on the financial statements due to certain shortcomings in record keeping and the failure to provide supporting documentation for certain transactions.

During the previous financial year, the Auditor-General rendered an Adverse Opinion on the financial statements due to significant shortcomings and differences in balances recorded in the trading entities of the department.

The Audit Committee has taken note of the findings and opinions of the Auditor-General, and is monitoring the steps being taken by management to address each of the issues raised.

1.2.4 Evaluation of Financial Statements

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.



MR J A BOYD

Chairperson of the Audit Committee

