

REPORT OF THE AUDIT COMMITTEE

The Audit Committee assists the Board of Trustees in its duties relating to the safeguarding of assets, the operation of adequate financial systems and control processes, and the preparation of Annual Financial Statements and related reporting in compliance with all applicable legal requirements and accounting standards.

The Audit Committee has adopted comprehensive terms of reference that have been approved by the Board of Trustees. The committee has conducted its work over the past financial year and discharged its responsibilities in accordance with those terms of reference and has reported quarterly in this regard to the Board of Trustees.

We are pleased to present our report for the financial year ended 31 March 2012.

Audit Committee Members and Attendance

The Audit Committee, consisting of the members listed below, met four times during the year under review to undertake its responsibilities.

- R. Garach (Trustee and Chairman of the Audit Committee)
- Z. Ntlangula (Trustee and Acting Chairman of the Board of Trustees) *
- A. Coombe (Member)
- I. Pelo (Member)
- P. Buthelezi (CEO - ex officio)



Mr Rakesh Garach
Chairman of the Audit Committee

The attendance of members at meetings for the period under review was as follows:

Member	Profession / Position	19 April 2011	23 May 2011	20 July 2011	10 November 2011	26 January 2012
Rakesh Garach (Chairman)	Chartered Accountant (SA)	√	√	√	√	√
Zukiswa Ntlangula *	B. Juris; LLB; Masters Diploma in Human Resources; Diploma in Project Management	√	√	√	n/a	n/a
Anthony Coombe **	Chartered Accountant (SA)	√	√	√	√	√
Innocentia Pelo **	Chartered Accountant (SA)	√	Apology	√	√	√
Philisiwe Buthelezi (CEO)	MBA (Corporate Finance); MSC (Economics)	√	√	√	√	Apology

* With effect from 1 November 2011 Ms Ntlangula was appointed as Acting Chairman of the Board of Trustees. As a result of this appointment her attendance at the Audit Committee was suspended

** Non-Trustee Members



The Chief Financial Officer (Executive Trustee), the Chief Risk Officer, the Internal Audit Manager, the internal and external audit firms and representative of the Auditor General, are standing invitees at each meeting and the Audit Committee has direct access to these attendees in the fulfilment of the Audit Committee's respective responsibilities.

Audit Committee Responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51 (1) (a) (ii) of the Public Finance Management Act and Treasury Regulations 3.1.13 and 27 (1), which include the following roles and responsibilities of the Audit Committee:

- Controlling and directing a system of internal audit and reviewing its effectiveness and activities including its annual work programme, coordination with the external auditors, the reporting on significant investigations and the responses of management to specific recommendations
- Reviewing the effectiveness of the internal control systems
- Reviewing the risk areas of the NEF's operations to be covered in the scope of the internal and external audits based on the regular conduct of a risk assessment and risk management strategy adopted by management and the Board of Trustees
- Reviewing the adequacy and reliability of the financial and performance information provided to management, the Board of Trustees and other users thereof
- Reviewing and, if thought fit, recommending to the Board of Trustees for adoption the audited annual financial statements
- Reviewing any accounting and auditing concerns identified as a result of internal and external audits
- Reviewing the NEF's compliance with legal and regulatory provisions

The Audit Committee has prepared appropriate terms of reference, which have been adopted by the Board of Trustees. The Audit Committee has regulated its affairs in compliance with these terms and has discharged all responsibilities contained therein and has reported quarterly in this regard to the Board of Trustees.

Effectiveness of internal control

The report and conclusion from the Internal Audit function indicated that the key controls implemented by management were exercised in a generally acceptable manner. This finding provided assurance that the risk areas included in the internal audit plan were being managed and controlled through an adequate framework of internal control, which is designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are effectively managed, and also that improvements are needed in certain key control areas. These key control areas have been identified in the Information and Systems Technology environment which encompass the need for a holistic IT Governance Framework which is currently being designed for implementation in October 2012. The area of Supply Chain Management, though satisfactorily maintained from an internal control perspective, will continue to remain a focal area for continuous enhancement of system-based internal controls to detect any breaches in adherence to the Supply Chain Management Regulations.

In our opinion, based on discussions with management and the Internal and External Auditors, the audit findings reported in the current year are a fair representation of the internal control environment at the NEF and have been for the most part adequately responded to by management. Where undertakings have been made to address control weaknesses, these will be followed up on a quarterly basis by the Audit Committee through a tracking register.

A separate Risk Management Committee monitors and oversees the assessment and mitigation of risk on a prioritised basis throughout the Trust. The Internal Auditors used this risk control framework to prepare their audit coverage plans and to undertake audit work in the higher prioritised risk areas identified. We are satisfied that the internal audit function at the NEF, under the management of the Internal Audit Manager with the support of a firm of internal auditors appointed following a public tender process, has provided adequate coverage for the year under review.

Management of the financial function

The financial function at the NEF is adequately staffed by suitably experienced and qualified personnel. Further, senior staff and management of the financial function under the executive management of the Chief Financial Officer (who is also an Executive Trustee), demonstrate ability to appropriately lead the finance portfolio. Further depth in the senior staff and management levels in the department has been created through the appointment of a Financial Controller, reporting to the Financial Manager. The adequacy of experience and technical capability in the finance portfolio will continue to be monitored by the Audit Committee, as will the need for succession planning.

Quality of management reports

During the financial year under review, quarterly management reports were submitted to **the dti** as required under the PFMA and Treasury Regulations, including performance information related to core business activities extracted from the organisation's Enterprise Resource Planning systems. The performance information is now subject to quarterly internal audit review. The Audit Committee is satisfied with the content and quality of quarterly management reports prepared and issued by management and the Board of Trustees.

Evaluation of Annual Financial Statements

The Audit Committee has:

- Reviewed and discussed with the External Auditors and management the audited annual financial statements to be included in the annual report
- Reviewed the external auditors' management letter and management's responses thereto
- Reviewed the appropriateness of accounting policies and practices
- Reviewed significant adjustments resulting from the audit
- Reviewed and satisfied itself as to the independence of the External Auditors

The Audit Committee has discussed, concurs with and accepts the conclusions of the External Auditors on the annual financial statements, read together with the report of the External Auditors, and has recommended these to the Board of Trustees for acceptance. 

Mr Rakesh Garach

Chairman of the Audit Committee