

PART FOUR

Report of the Audit Committee

Report of the Audit Committee regarding the effectiveness of internal controls for the Department of Planning, Local Government and Housing

Legal requirements

The Public Finance Management Act, 1999, was implemented with effect from 1st of April 2000, and Section 38 (1)(a) requires accounting officers to "...ensure an effective, efficient and transparent system of financial and risk management and internal control, as well as a system of internal audit under the control and direction of an audit committee....".

Treasury Instruction 3.1.11(a) requires the audit committee to evaluate the financial statements of the department for reasonability and accuracy, and to report on the effectiveness of internal control of the department.

Management responsibility

The accounting officer is responsible for guiding departmental strategy, major plans of action, risk policies, annual budgets and business plans, monitoring departmental performance and establishing best management practices.

Audit Committee responsibility

The Provincial Administration of the Western Cape has a centralized Audit Committee and internal audit component. The Audit Committee has adopted a written charter that sets out the scope of their activities and authorities. During the first year of implementation the audit committee addressed their responsibilities in terms of the charter.

The activities of the Internal Audit component are mandated, although it is not adequately resourced to audit all the high risk areas in the Department.

The report of the Audit Committee is based on the work performed by the internal audit component, which complies with the requirements of the Institute of Internal Auditors to audit both the adequacy and effectiveness of internal controls.

Risk management and internal control mechanisms

The control framework is designed to provide reasonable assurance regarding the achievement of departmental objectives in the following categories:

- The maintenance of proper accounting records and the reliability of financial information used within the Department;
- Compliance with applicable laws, regulations and codes of conduct;

- The detection and minimization of significant risks associated with fraud, potential liability and loss, including the safeguarding of assets;
- Managing potential conflicts of interest of management; and
- The effectiveness of operations. The key internal control procedures could be summarized as follows:

Risk management

A risk model was prepared for the Department indicating high-level risks that will impact on achieving objectives. Further developments included the breakdown of the risk model onto processes of corporate governance, risk management and control. The process level risk model will be completed during the new financial year.

Information and communication

The Department has a comprehensive process of annual budgets and detailed monthly reporting. The accounting officer and his management team review the annual budget and actual expenses on a continuous basis. The Audit Committee did not evaluate the financial statements for the financial year.

Monitoring processes

The system of internal control is continually monitored and where necessary modified. The Department's systems are designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorisation. Monitoring processes include management review and testing by internal auditors. Testing of financial transactions are performed by the external auditors.

Compliance

The Department maintains a system of compliance auditing with relevant laws, regulations and policies, and with the code of conduct. A fraud prevention plan was developed and implemented during the financial year. The internal auditors assess the effectiveness of internal controls independently and recommend improvements.

Overall effectiveness

The effectiveness of internal control systems within the Department is subject to inherent limitations, including the possibility of human error and deliberate overriding controls. It is thus recognised that internal control systems can only provide reasonable assurance against any material misstatement and loss.

Management maintains adequate accounting records, although effective management information is not consistently available to ensure the

achievement of objectives. Management continues to maintain systems of internal control through a regular and proactive process of auditing and correction.

Internal Audit did not perform sufficient audits to express an opinion on the effectiveness of internal control within this Department. During the year under review several instances of losses were reported to internal audit that resulted from a breakdown in the functioning of controls. The effect of these instances has been included in the annual financial statements.