

AUDIT COMMITTEE REPORT

I am pleased to present our Audit Committee Report for the financial year ended 31 March 2020, having assumed the position of Chairperson of the Audit Committee from my predecessor, Mr Clive Garrett, whose stewardship ended on 31 January 2020.

Audit Committee composition

The Audit Committee is formally appointed and comprises four non-executive Board members, who provide a diverse range of competent perspectives based on their expertise and experience. An understanding of how management develops essential internal controls, applies necessary accounting policies and presents important financial information is a core responsibility of the committee. That responsibility further includes being conversant with accounting principles and finance, as well as established industry proficiency. The assessment and evaluation of the completeness and accuracy of reports is conducted jointly by the committee members.

The members are independent and are not involved in the day-to-day management of the PPECB.

The Audit Committee members serve for a period of three years and the committee Chairperson is appointed by the Chairperson of the PPECB Board. On 11 March 2020, the PPECB welcomed the following members to serve on the Audit Committee:

- **Ms M Slabber** – Independent Non-executive Board member: Chairperson
- **Mr KB Katoo** – Independent Non-executive Board member
- **Ms M Kotzé** – Independent Non-executive Board member
- **Mr RM Ramasodi** – Independent Non-executive Board member

I wish to acknowledge and thank the previous Audit Committee members, as well as Mr Garrett for his excellent chairmanship and Mr Mashaba for his valuable insights provided over the past three years.

Statement of responsibility and mandate

The Audit Committee’s primary function is to assist the Board in fulfilling its oversight responsibilities in matters related to financial reporting, internal auditing, compliance, effective risk management and sound internal control systems. The Committee operates autonomously of management and has a rolling agenda, which ensures full oversight of all matters within its delegated mandate.



The roles and responsibilities of the Audit Committee as set out in the Audit Committee Charter, are reviewed and approved annually, with consideration given to the relevant regulatory changes and recommended best practice. The Charter, compliant with section 51(1) (a)(ii) of the Public Finance Management Act and Treasury Regulation 27.1, directs the committee in terms of its objectives, authority and responsibilities, both statutory and those assigned by the Board.

The Audit Committee keeps the Board informed of its activities and recommendations after each Committee meeting. Matters of interest and concern are promptly reported to the Board where action or improvement is required regarding any aspect of financial reporting, risk management, internal control, compliance or audit-related activities. The Audit Committee appreciates the importance of the oversight role required on matters of internal controls, financial sustainability, integrated reporting and the maintenance of corporate governance standards.

Key activities

During the financial period under review, the Audit Committee received comprehensive reports from management and the external auditor in various areas of the finance landscape and business risk, which include compliance, management controls, accounting policies and practices, audit plans, and financial reporting.

Reports, related to internal audits conducted by in-house and outsourced internal auditors are reviewed quarterly and management’s responses and conclusions to the various audit findings are reviewed and measured for appropriateness.

Engagement with management is conducted in a robust and transparent manner, where discussions are held on the progress of key issues related to financial reports, internal controls and financial risk exposure. Sufficient time is spent confirming that all information provided is balanced, understandable and provides the necessary information for the Board to assess the PPECB's position and performance, objectives and strategy. All reports are critically assessed for consistency and all business and regulatory requirements are met.

The following key activities were completed during the year under review:

REPORTING

- Considered the integrity of the quarterly financial statements
- Reviewed accounting policies and practices, including compliance with accounting and reporting standards
- Reviewed management's assessment of going concern and longer-term viability
- Reviewed the internal controls in relation to financial reporting
- Advised the Board of the Committee's assessment of the financial statements. Confirmed the fairness, understandability and completeness of the statements and that they provide the necessary information for decision-making.

RISK MANAGEMENT AND INTERNAL CONTROL

- Monitored the effectiveness of the PPECB's risk management and internal control system
- Assessed management's response to significant audit findings and recommendations
- Evaluated the quality, efficiency and effectiveness of the internal audit function
- Assessed the performance of the internal and external auditors and Chief Financial Officer
- Discussed significant matters arising from the internal audit
- Considered and noted compliance with applicable external legal and regulatory requirements.

EXTERNAL AUDITOR

- Considered the independence of SNG Grant Thornton
- Recommended the reappointment of the external auditor
- Reviewed and approved the engagement letter for SNG Grant Thornton's annual audit
- Considered the annual external audit plan and monitored the execution and results of the audit

- Monitored the expertise, resources and independence and objectivity of SNG Grant Thornton.

COMPLIANCE AND GOVERNANCE

- Performed its statutory duties as prescribed in the Act and by the PPECB Board.

External audit

The Audit Committee's role includes determining the independence and effectiveness of the external auditor. The PPECB's current external auditor, SNG Grant Thornton, were first appointed in 2012, following the conclusion of a competitive tender process. During the current financial year, a competitive tender process was followed where SNG Grant Thornton was awarded the contract. In September 2019 the Audit Committee considered and recommended a resolution for the Board to approve the reappointment of SNG Grant Thornton after consideration was given to rotation of engagement partners and subject to the written approval of the Office of the Auditor-General. The Office of the Auditor-General approved the reappointment of SNG Grant Thornton for a period of no more than two years and subject to annual performance assessment.

The objectivity and independence of SNG Grant Thornton was evaluated, combined with the quality and effectiveness of the external audit process. The following criteria were included in the evaluation:

- Professionalism and competence
- Integrity and objectivity
- Audit quality priorities
- Constructive responses to management and key judgements
- Efficiency of service delivery in the audit process
- Compliance with all relative legislation and regulations.

Furthermore, consideration was given to the Audit Committee's own experiences with the external auditor during their interactions throughout the year. In view of the above, the Audit Committee is satisfied that SNG Grant Thornton has continued to provide a high-quality and effective audit and maintained its independence and objectivity.

The Audit Committee considered the external audit fee appropriate for the financial year ended 31 March 2020. The external auditor did not provide non-audit services during the period under review.

A meeting held with the external auditor, without management being present, satisfied the Audit Committee that there are no matters of concern.



Internal audit

The internal audit function is an independent and objective assurance function. This function supports the PPECB in maintaining a systematic and disciplined approach to improving its overall control framework, as well as evaluating and improving PPECB’s risk management, compliance and governance practices.

The entity has an in-house internal audit division which is enhanced by a co-sourced internal audit model to ensure optimal efficiency of this function. KPMG was appointed as the internal audit co-sourced department, whose annual audit plan is guided by the entity’s risk register and previous internal and external audit reports. The primary role of the internal audit function, through its assurance and enquiry activities, is to safeguard value by protecting the PPECB’s assets, reputation and sustainability in relation to the entity’s goals and strategic objectives.

The responsibility and scope of the audit function is approved annually by the Audit Committee. The internal audit function reports functionally to the Chairperson of the Audit Committee and administratively to the Chief Financial Officer. Official meetings are held with internal audit throughout the year to confirm that the function is executed effectively and objectively.

The Audit Committee is satisfied with the content and quality of the quarterly reports prepared and issued by the internal auditor of the PPECB. The Board also considered the suitability of KPMG as the PPECB’s auditor and their availability of capacity to monitor and guide management and the Board on ICT risks. In line with the Public Finance Management Act and the King IV™ requirements on Corporate Governance, internal audit provides the Audit Committee and management with

assurance that the entity’s internal controls are appropriate and effective. This is achieved by means of a risk management process, as well as the identification of corrective actions and identified opportunities for improvement of the controls and processes.

Based on assurance obtained throughout the year, the Audit Committee confirms that the system of internal control employed by the PPECB for financial and risk management is considered effective, efficient and transparent.

Combined assurance and risk management

The Audit Committee is satisfied that the entity has optimised the assurance coverage obtained from management and internal and external assurance providers, in accordance with an appropriate combined assurance model.

A complete assessment of the risk management function and framework is performed regularly to confirm the effectiveness of the systems of risk management and internal control. Furthermore, regular monitoring of the effectiveness of procedures for internal control over financial reporting, compliance and operational matters is conducted.

Whistleblowing

All whistleblowing reports are reviewed by the Audit Committee. The Audit Committee considered the independent investigations undertaken by the management, as well as the various findings, follow-up actions and conclusions of such reports, and confirmed all measures were appropriate.

Performance management

The Audit Committee reviewed and considered appropriate the in-year performance reports and performance results

reported by management. The process of planning, identifying, monitoring and reporting of the organisational predetermined objectives was deemed satisfactory. The relevance and measurement of the indicators and that of the performance reports were compliant with the Public Finance Management Act, Treasury Regulations and any other related regulatory requirements for reporting on organisational performance.

In-year management and quarterly reporting

As required, the PPECB submitted quarterly reports to the Executive Authority. The Audit Committee reviewed the reports and is satisfied that the Board and the Executive Authority were appropriately informed of the activities of the PPECB, as well as the progress with regard to its performance information and financial management.

Financial statements and accounting practices

The Annual Financial Statements for the year ended 31 March 2020 were reviewed by the Audit Committee and the Committee believes that the statements present a balanced view of the PPECB’s performance for the period under review and are in compliance with Generally Recognised Accounting Practices. The Committee reviewed and satisfied itself regarding the entity’s compliance with legal and regulatory provisions and confirms that there were no significant adjustments made. The external auditor’s management letter and management’s response were assessed and deemed satisfactory.

Evaluation of the expertise and experience of the Chief Financial Officer and the finance function

The expertise and experience of the Chief Financial Officer is evaluated on an ongoing basis during regular engagements with him. The Audit Committee has satisfied itself that the Chief Financial Officer holds the appropriate expertise and experience to execute his designated function. The attendance of the Chief Financial Officer at every Audit Committee meeting allows for his in-depth analysis on specific matters and demonstration of his technical knowledge. The Audit Committee further considered and has satisfied itself on the appropriateness and adequacy of the skill, experience and resources of the finance function.

Conclusion of the Audit Committee

The Audit Committee accepts the auditor’s opinion of the PPECB’s Annual Financial Statements for the year ended 31 March 2020. The Audit Committee conveys its appreciation to the PPECB for maintaining an unqualified audit opinion with no material findings.

Martli Slabber
Chairperson: Audit Committee

