

SECTION 3

REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2006.

Audit Committee members and attendance

The Audit Committee consists of the members listed hereunder and meets four times per annum as per its approved terms of reference. During the current year four meetings were held.

Name of Member	Number of meetings attended
JMB Maswanganyi (Chairperson)	4
R Rhoda	4
GJ Sandrock (resigned 30 June 2005)	1

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 discharged all its responsibilities as contained therein.

Effectiveness of internal control

Department of Labour

Treasury requires that the Department of Labour make use of transversal IT systems. The systems are the Basic Accounting System (BAS), PERSAL and LOGIS. The Auditor-General has reported that these systems cannot be relied upon due to inherent limitations and deficiencies. The qualification reported by the Auditor-General, was a direct result of these deficiencies.

Recommendations on improvements to financial and operational controls were noted, and actions are planned to correct these specified control weaknesses.

National Skills Fund

Regarding the NSF the major issue raised by the Auditor-General pertains to the structure and accountability framework. This resulted in the qualified audit opinion of the financial statements of the NSF. Treasury requires that the Department of Labour make use of transversal IT systems. The system utilised is the Basic Accounting System (BAS), which does not cater for accrual accounting.

Recommendations on improvements to financial and operational controls were noted, and actions are planned to correct these specified control weaknesses.

Sheltered Employment Factories

Regarding the Sheltered Employment Factories (SEF) the major issue raised by the Auditor-General pertains to the lack of appropriate documented and approved policies and a procedure framework, as well as lack of independent checks and reconciliations. This is mainly due to the lack of a structure and accountability framework. This resulted in the disclaimer audit opinion of the financial statements of the SEF. The shortcomings pertaining to the financial statements were noted.

Recommendations on improvements to financial and operational controls were noted, and actions are planned to correct these specified control weaknesses.

Evaluation of Financial Statements

The Audit Committee has:

- Reviewed and discussed with the Chief Financial Officer and the Accounting Officer the audited annual financial statements to be included in the annual report
- Reviewed the Auditor-General's management letters and management responses
- Reviewed changes in accounting policies and practices
- Reviewed significant adjustments resulting from the audit.

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 financial statements be accepted and read together with the report of the Auditor-General.



Mr. JMB Maswanganyi
Chairperson of the Audit Committee
Date: 2006/08/16