

Audit and Risk Committee – Terms of Reference

1. Constitution

Every company should establish a Committee to be known as the Audit and Risk Committee (“Committee”) to assist the board of directors in discharging its duties relating to the safeguarding of assets, mitigation of risk, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards. The Committee should not perform any management functions or assume any management responsibilities. It provides a forum for discussing business risk and control issues and for developing relevant recommendations for consideration by the board. The Committee should mainly make recommendations to the board for its approval or final decision. The membership, resources, responsibilities and authority (composition, functions and operation) of the Committee to perform its role effectively, is stipulated in these terms of reference, which may be amended by the board as and when required. The Committee is constituted in terms of the requirements of sound corporate governance practice and operates within that framework.

2. Membership

- The members should ideally consist of not less than three directors appointed by the board, the majority of whom shall be non-executive directors who are financially literate and (where possible) shall be independent non-executive directors. As an interim measure, a committee comprising only 2 members shall be acceptable.
- The board shall appoint a chairperson from the non-executive members of the Committee and determine the period for which he shall hold office. It is recommended that the chairperson of the board should not be appointed as chairperson of the Committee.
- The board shall have the power at any time to remove any members from the committee and to fill any vacancies created by such removal.
- The company secretary shall be the secretary of the Committee.

3. Responsibilities of the committee

- Auditors and external audit
 - ❖ The Committee may be requested to recommend to the board which firm(s) should be appointed as external auditor. Several firms should be screened (which process may include written or verbal proposals).
 - ❖ The Committee will:
 - i) evaluate the independence and effectiveness of the external auditor and consider whether any non-audit services rendered by such auditors is likely to substantively impair their independence;
 - ii) evaluate the performance of the external auditor;
 - iii) consider and make recommendations on the appointment and retention of the external auditor, and any questions of resignation or dismissal of the auditor;
 - iv) discuss and review, with the external auditor before the audit commences, the auditor engagement letter, the terms, nature and scope of the audit function, procedure and engagement, the audit fee, and to ensure co-ordination (where more than one audit firm is involved) and maintenance of a professional relationship between them;
 - v) negotiate procedures, subject to agreement, beyond minimum statutory and professional duties – there are certain minimum non-negotiable procedures required from the external auditors;
 - vi) agree to the timing and nature of reports from the external auditor;
 - vii) consider any problems identified in going concern or internal control statements;

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- viii) make suggestions as to problem areas that the audit should address;
 - ix) consider any accounting treatments, significant unusual transactions, or accounting judgements, that could be contentious;
 - x) identify key matters arising in the current year's management letter and satisfy itself that these are being properly followed up and addressed;
 - xi) consider whether any significant ventures, investments or operations are not subject to external audit;
 - xii) review the overall audit role, to explore objectives, minimise duplication, discuss implications of new auditing standards and ensure that the external audit fee will sustain a proper audit and provide value for money;
 - xiii) agree to the timing and nature of reports from the external auditor;
 - xiv) obtain assurance from the external auditor that adequate accounting records are being maintained.

- Financial Statements

The Committee will examine and review the annual financial statements, prior to submission and approval by the board, focusing particularly on:

- ❖ The implementation of new systems;
- ❖ Tax and litigation matters involving uncertainty;
- ❖ Any changes in accounting policies and practices;
- ❖ Major judgmental areas;
- ❖ significant adjustments resulting from the audit;

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- ❖ the basis on which the company has been determined a going concern;
 - ❖ capital adequacy;
 - ❖ internal control;
 - ❖ compliance with accounting standards, compliance with stock exchange and legal requirements;
 - ❖ the efficiency of major adjustments processed at year end; and
 - ❖ compliance with the financial conditions of loan covenants;
 - ❖ reviewing special documents (such as prospectus, circulars) when applicable.
- Internal control and internal audit

An important role of the Committee will be to monitor and supervise the effective function of the internal audit, ensuring that the roles and functions of the external audit with internal audit are sufficiently clarified and co-ordinated to provide an objective overview of the operational effectiveness and adequacy of the company's systems of internal control and reporting. The objective being for internal audit being able to provide management with insight, advice and assurances that systems and controls are in place and are functioning effectively. The process / activities will include:

- ❖ Identifying areas of the business where significant risks are in existence and require focussed attention;
- ❖ Evaluating the performance of internal audit;
- ❖ Reviewing the internal audit function's compliance with its mandate as approved by the Committee;
- ❖ Reviewing the effectiveness of the company's systems of internal control, including internal financial control and business risk management and the maintenance of effective internal control systems;

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- ❖ Considering the performance and/or the appointment, dismissal or re-assignment of the head of the internal audit function;
 - ❖ Reviewing and approving the internal audit charter, internal audit plans and internal audit's conclusions with regard to internal control;
 - ❖ Reviewing the adequacy of corrective action taken in response to significant internal audit findings;
 - ❖ Reviewing significant matters reported by the internal audit function;
 - ❖ Reviewing the objectives and the operations of the internal audit functions;
 - ❖ Assessing the adequacy of performance of the internal audit function, and the adequacy of available internal audit resources;
 - ❖ Reviewing the co-operation and co-ordination between the internal and external audit functions and co-ordinating the formal internal audit work plan with external auditors to avoid duplication of work;
 - ❖ Reviewing significant differences of opinion between management and the internal audit function;
 - ❖ Maintaining proper and adequate accounting records;
 - ❖ Evaluating the independence and effectiveness of the internal auditors;
 - ❖ Controlling the operational and financial reporting environment;
 - ❖ Safeguarding company's assets against unauthorised use or disposal;

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- ❖ Directing and supervising investigations into matters within its scope, for example, evaluations of the effectiveness of the company's internal control, cases of employee fraud, misconduct or conflict of interest.

- Risk Management and Insurance

A crucial role of the Committee is the overall responsibility for the integrity, reliability and efficiency of the company's risk management strategy / policy and insurance portfolio.

- Policies and Procedures

It is desirable that companies have well documented and up to date policy manuals in respect of various areas of their operations. The Committee will be responsible to ensure that policy manuals exist and are regularly updated (having regard to legal changes in the common law and legislation) from time to time in all areas of the business, including (but not limited to):

- ❖ Investment related activities;
- ❖ Asset management activities;
- ❖ Operational activities and operational expenses;
- ❖ Capital expenditure;
- ❖ Human resources.

- Ethics

- ❖ There are a number of statutory, common law and other requirements that cover the ethical behaviour of directors, managers and officers of companies. In addition, the company should establish a clearly defined and documented code of ethics. The directors must declare the nature and extent of their interest in contracts.

- ❖ The Committee will be responsible for:

- i) monitoring the ethical conduct of the company, its executives and senior officials;
- ii) reviewing any statements on ethical standards or requirements for the company assisting in developing such standards and requirements;

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- iii) compliance with the requirements of the articles of association;
 - iv) compliance with the law and regulations of any other applicable statute and of controlling bodies;
 - v) identification of any violations of ethical conduct;
 - vi) environmental and social issues.

- ❖ The Committee will also make recommendations on any potential conflict of interest or questionable situations of a material nature.

4. Reporting and accountability

- The chairperson of the Committee shall account to the board for its activities and make recommendations to the board concerning the adoption of the financial statements and any other matters arising from the above responsibilities.
- The chairperson (or, in his/her absence, an alternate member) of the Committee shall attend the annual general meeting to answer questions concerning matters falling within the ambit of the Committee.

5. Activities of the Committee

In discharging its responsibilities, the Committee will:

- Financial statements
 - ❖ Review the quality of financial information, financial statements and any required public and regulatory reporting;
 - ❖ Review the accounts and financial statements taken as a whole to ensure they present a balanced and understandable assessment of the position, performance and prospects of the company;
 - ❖ Review the external auditor's proposed audit certificate;

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- ❖ Discuss problems and reservations arising from the audit, and any matters the auditor may wish to discuss (in the absence, where requested by the Committee, of executive directors and any other person that is not a member of the Committee);
 - ❖ Review the external auditor's management letter and management response;
 - ❖ Review the credibility, independence and objectivity of the auditor, taking into account their audit and non-audit fees. Where the auditors also supply a substantial volume of non-audit services to the company, the Committee should keep the nature and the extent of such services under review, seeking to balance the maintenance of objectivity with value for money.
- Appointment of external auditors

In the context of making recommendations to the Board regarding the appointment of one or more firms of external auditors, the Committee should take into account factors such as:

- ❖ Effectiveness;
 - ❖ Independence, having regard to any non-audit and other services provided by the external auditors;
 - ❖ Value for money of services provided.
- Internal control and internal audit
 - ❖ Review the company' statement on internal control systems prior to endorsement by the board, and in particular to review;
 - i) the procedures for identifying business risks and controlling their impact on the company;
 - ii) the company's policies for preventing or detecting fraud;
 - iii) the company's policies for ensuring that the company complies with relevant regulatory and legal requirements;
 - iv) the operational effectiveness of the policies and procedures;

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- ❖ consider whether or not the objectives, organisation, staffing plans, financial budgets, audit plans and standing of the internal audit function provide adequate support to enable the Committee to meet its objectives;
 - ❖ provide guidance on role identification in respect of responsibility and accountability for the management of the financial and non-financial related activities of internal audit;
 - ❖ review the results of work performed by the internal audit function in relation to financial reporting, corporate governance, internal control, and any significant investigations and management responses;
 - ❖ review co-ordination between the internal audit function and the external auditors and deal with any issues of material or significant dispute or concern;
 - ❖ review such significant transactions not directly related to the company's normal business as the Committee might deem appropriate;
 - ❖ review significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees of the company;
 - ❖ consider other relevant matters referred to it by the Board.
- Risk Management
 - ❖ Review the activities relating to control over significant risks and the implementation of risk management strategies and policies, which will include but not be limited to:
 - the review of any legal matters that could have a significant impact on the company's business;
 - assessment of risk in the widest sense which includes market risk, credit risk, liquidity risk, operational risk and commercial risk, which together cover detailed combined risks such as:

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- interest rate risk;
 - country risk;
 - counterparty risk, including provisioning risks;
 - currency and foreign exchange risk;
 - technology risk;
 - price risk;
 - disaster recovery risk;
 - operational risk;
 - prudential risk;
 - reputational risk
 - competitive risk;
 - legal risk;
 - compliance and control risks;
 - sensitivity risks, e.g. environmental, health and safety;
 - concentration of risks across a number of portfolio dimensions;
 - investment risk;
 - asset valuation risk;
 - other risks appropriate to the business, which may be identified from time to time.

➤ a review of risk aspects related to investment policies, practices and procedures of the company which may be in place or carried out from time to time.

❖ The Committee will ensure compliance with risk management policies implemented throughout the company.

❖ The Committee will review the adequacy of **insurance coverage**.

❖ **Activities and Output / Deliverables**

➤ In identifying risks which could impact on the company's business, input should be sought from all areas of the business so as to identify all possible risks whether they be of a general nature, industry specific or specific to the company, and will include risks of a financial as well as non-financial nature.

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- Regard should be had to external and / or objective input and criteria during assessment of risks in an endeavour to formulate risk management strategy / procedures / policies on the basis of materiality and order of importance.
 - Appropriate risk management strategies and policies should be formulated and implemented throughout the company (including where necessary activities, timetables and cost estimates relating to specific areas of risk requiring attention on a project basis) with the overall aim of managing material risks.
- The Audit Committee, in carrying out its duties under these terms of reference, will have due regard to the principles of governance and code of best practice as contained in the King Report on Corporate Governance for South Africa 2002.

6. Meetings

- Meetings of the Committee will be held as frequently as the Committee considers appropriate, but it will normally meet not less than three times a year (pre-annual audit for planning purposes, post audit to review audit activities and annual financial results, as well as at interim stage to review interim results). The board or any member thereof, including members of the Committee, the external auditors, and the head of internal audit may call further meetings.
- Reasonable notice of meetings and the business to be conducted shall be given to the members of the Committee, the chairperson of the board, the chief executive, executives and managers responsible for finance, the head of internal audit and the external audit partners to make proposals as necessary.
- The quorum for decisions of the Committee shall be any two members of the Committee present throughout the meeting of the Committee (or one member if at any stage the Committee comprises only 2 members).

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- The chief financial officer, senior audit partner in charge of the external audit and head of internal audit shall be in attendance at meetings of the Committee and shall have unrestricted access to the chairperson or any other member of the Committee as is required in relation to any matter falling within the remit of the Committee.
 - The chairperson, at his/her discretion, may invite other executives to attend and to be heard at meetings of the Committee.
 - No attendee shall have a vote at meetings of the Committee.
 - The minutes of all meetings of the Committee, or summaries thereof, shall if required be submitted to the board at the immediate following board meeting. The agenda for each such board meeting shall provide an opportunity for the chairperson of the Committee to report orally on any matters of importance as well as on the Committee's findings and recommended actions.

7. **Proceedings**

- Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the company's articles of association regulating the meetings and proceedings of directors and committees.
- The committee secretary shall take minutes of meetings. These shall be reviewed and approved by the members of the Committee.

8. **Authority of the Committee and resources available to it**

The Committee, in carrying out its tasks under these terms of reference:

- Is authorised to investigate any activity within its terms of reference;
- May at the discretion of the Committee, require other employees of the company to attend meetings or parts of meetings;
- May consult with and seek any information it requires from any employees, and all employees shall be required to co-operate with any request made by the Committee in the course of its duties.

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- Shall at least once a year meet with the external auditors without any executive member of the board in attendance;
 - Shall at least once a year meet with the internal auditors without any executive member of the board in attendance.

9. **General**

- The Committee, in carrying out its tasks under these terms of reference, may obtain such outside or other independent professional advice as it considers necessary to carry out its duties.
- The board will ensure that the Committee will have access to professional advice both inside and outside the company in order for it to perform its duties.
- These terms of reference may be amended as required, subject to the approval of the board.