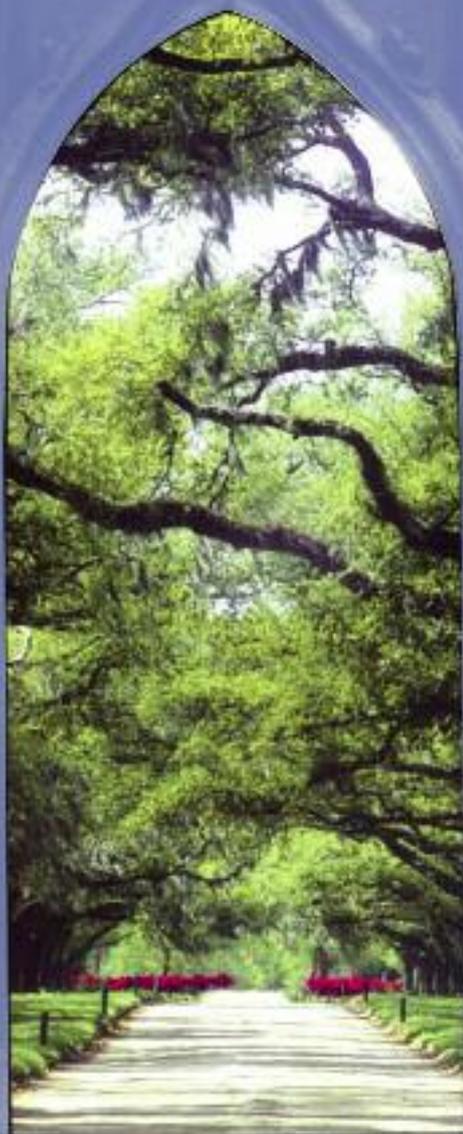


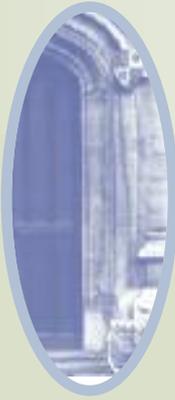
Audit Committee ForumTM Alert 7

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The audit committee terms of reference



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The audit committee terms of reference

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This alert is being issued ahead of the relevant effective dates¹ of the Companies Act and King III to inform and afford entities the opportunity to prepare themselves for these requirements.

These terms of reference have been drafted for the specific purposes of a public or state-owned company. In the case of other companies, the terms should be adjusted to reflect that the audit committee is a board committee with responsibilities as delegated by the board, taking into account any other relevant legislation². We have also assumed with the drafting of this document that there is a separate risk committee³.

The document goes into detail, but may be tailored and abbreviated to suit the entity's needs. The bold paragraphs are recommended, while the light paragraphs are optional.

¹ The effective dates are: King III effective 1 March 2010, Companies Act no notice of effective date yet.

² Public Finance Management Act, Banks Act etc.

³ Were the audit committee has responsibility for risk as well, additional risk related comments will need to be included. – Refer Paragraph 5.5

Example audit committee terms of reference

1 Constitution

- 1.1 The audit committee (the committee) is constituted as a statutory committee of [insert the name of the company](the company) in respect of its statutory duties in terms of section 94(7) of the Companies Act, 2008 and a committee of the board in respect of all other duties assigned to it by the board.
- 1.2 The duties and responsibilities of the members of the committee as set out in this document are in addition to those duties and responsibilities that they have as members of the board. The deliberations of the committee do not reduce the individual and collective responsibilities of board members in regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgement in accordance with their legal obligations as directors.
- 1.3 This charter is subject to the provisions of the Companies Act, the company's Memorandum of Incorporation and any other applicable law or regulatory provision.

2 Function

- 2.1 The overall function of the committee is to assist the directors in discharging their responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes, the preparation of fairly presented financial statements in compliance with all applicable legal and regulatory requirements and accounting standards, and the oversight of the external and internal audit appointments and functions.
- 2.2 The committee is an advisory committee and not an executive committee. As such it must not perform any management functions or assume any management responsibilities and shall have an objective, independent role.
- 2.3 The committee undertakes to perform its duties on behalf of all the subsidiaries of the company, except for:
[include bulleted list of subsidiaries not included]
- 2.4 In addition the audit committee will liaise with and monitor the activities of the other audit committees in the group. [insert if applicable]

3 Membership

- 3.1 The committee must comprise at least three members to be elected by the shareholders on recommendation of the nominations or other board committee.
- 3.2 Members of the committee must be non-executive directors and meet all applicable independence requirements and be suitably skilled.
- 3.3 The board shall appoint a chairman to the committee who is an independent non-executive director. The chairman of the board is not eligible to serve as a member of the committee.

3.4 The members of the committee should collectively have sufficient qualifications and experience to fulfil their duties, including an understanding of the following:

- financial and sustainability reporting
- internal financial controls
- external audit process
- internal audit process
- corporate law
- risk management
- sustainability issues
- IT governance and other governance processes

3.5 The chairman of the risk committee will be an ex officio member / invitee of this committee

3.6 The board must fill vacancies on the committee within 40 business days after the vacancy arises.

4 Statutory duties

The audit committee must:

- Nominate for appointment an independent registered auditor who in the opinion of the audit committee is independent of the company;;
- Determine the fees to be paid and the terms of engagement of the auditor;
- Ensure that the appointment of the auditor complies with the Companies Act and other relevant legislation;
- Determine the nature and extent of any non-audit services which the auditor may provide to the company, or that the auditor must not provide to the company, or a related company;
- Pre-approve any proposed contract with the auditor for the provision of non-audit services to the company;
- Prepare a report, to be included in the annual financial statements for that financial year-
 - Describing how the audit committee carried out its functions
 - Stating whether the audit committee is satisfied that the auditor was independent of the company; and
 - Commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company;
- Receive and deal appropriately with any concerns or complaints, whether from within or outside the company, or on its own initiative, relating to-
 - The accounting practices and internal audit of the company;
 - The content or auditing of the company's financial statements;
 - The internal financial controls of the company; or
 - Any related matter
- Make submissions to the board on any matter concerning the company's accounting policies, financial control, records and reporting; and

- Perform any other functions determined by the board, including the development and implementation of a policy and plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes within the company.
- In addition, for listed entities ⁴, “the audit committee must consider, on an annual basis, and satisfy itself of the appropriateness of the expertise and experience of the financial director and the applicant issuer must confirm this by reporting to shareholders in its annual report that the audit committee has executed this responsibility.”

5 Delegated duties

5.1 External auditor (auditor)

The audit committee shall:

- Meet with the auditor at the commencement of the audit to review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- Be satisfied that the audit plan makes provision for effectively addressing the critical risk areas in the business;
- Meet with the auditor not more than a month before the board meets to approve the financial statements in order to consider matters which appear to the auditor or the audit committee to be of importance and relevant to the proposed financial statements and to the affairs of the company generally;
- Review the findings of the audit with the auditor, this shall include but not be limited to the following;
 - a discussion of any major issues which arose during the audit;
 - any accounting and audit judgements; and
 - levels of errors identified during the audit;
- Provide an open avenue of communication between the external auditor, internal audit and the board;
- Consider the appropriateness and quality of all critical accounting policies and practices including any accounting treatments, significant unusual transactions or accounting judgements that could be contentious;
- Review any representation letters requested by the auditor before they are signed by management;
- Review the management letter and management’s response to the auditor’s findings and recommendations;
- Review the overall audit role, 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;
- Ensure that there is a process for the audit committee to be informed of any Reportable Irregularities (as required by the Auditing Professions Act, 2005) identified and reported by the external auditor;
- Ensure that the lead engagement partner within the appointed firm is rotated every five years in accordance with the current requirements; and
- Review the quality and effectiveness of the external audit process, and evaluate the performance of the auditor.

⁴ JSE Listing requirements paragraph 3.84

5.2 Financial statements

The committee will review the annual financial statements, the interim and preliminary announcements, the accompanying reports to shareholders and any other announcements regarding the company's results or other financial information to be made public, prior to submission and approval by the board.

This will be focussed particularly on:

- The impact of significant or new financial systems;
- Tax and litigation matters;
- The appropriateness of accounting policies adopted and any changes in accounting policies and practices;
- Significant financial estimates based on judgment which are included in the financial statements;
- The impact and disclosure of significant, complex and/or unusual transactions, especially where the accounting treatment is open to different interpretations;
- The appropriateness of major adjustments processed at year-end;
- The basis on which the company and the group had been determined a going concern;
- Capital adequacy;
- Compliance with applicable accounting standards, JSE listings requirements and legal requirements;
- Whether the annual financial statements present a balanced and understandable assessment of the company's position, performance and prospects;
- The clarity of disclosure in the company's financial reports and the context in which statements are made;
- Reviewing the directors' statement to be included in the annual financial statements, including the statement on effectiveness of the systems of internal control;
- Compliance with the financial conditions of loan covenants;
- Reviewing special documents such as prospectuses as and when prepared; and
- Earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

5.3 Integrated reporting

The committee shall oversee integrated reporting. In particular the committee shall:

- have regard to all factors and risks that may impact on the integrity of the integrated report, including factors that may impact fair presentation of the significant judgements and reporting decisions made, monitoring or enforcement actions by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information;
- review the annual financial statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any other intended release of price sensitive information and prospectuses, trading statements and similar documents;

- comment in the annual financial statements on the financial statements, the accounting practices and the effectiveness of the internal financial controls;
- review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- recommend to the board whether or not to engage an external assurance provider on material sustainability issues;
- recommend the integrated report for approval by the board;
- consider the frequency for issuing interim results;
- consider whether the external auditor should perform assurance procedures on the interim results
- review the content of the summarised information for whether it provides a balanced view; and
- engage the external auditors to provide assurance on the summarised financial information.

5.4 Combined Assurance (refer to ACF Alert 4)

The committee ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the committee shall-

- ensure that the combined assurance received is appropriate to address all the significant risks facing the company; and
- monitor the relationship between the external assurance providers of the company.

5.5 Risk oversight ⁵ (refer to ACF Alert 6)

The committee is an integral component of the risk management process and specifically the committee shall oversee:

- financial reporting risks
- internal financial controls
- fraud risks as it related to financial reporting; and
- IT risks as it relates to financial reporting

5.6 Internal audit (refer to ACF Alert 4)

The committee is responsible for overseeing internal audit, and in particular, the committee shall:

- be responsible for the appointment, performance assessment and/or dismissal of the chief audit executive,
- approve the internal audit plan;
- oversee the staffing and objectives of the function;
- ensure that the internal audit function is subject to an independent quality review, as and when the committee determines it appropriate;
- Review and approve the internal audit charter;

⁵ Were the audit committee has responsibility for risk as well, additional risk related comments will need to be included.

- Consider and review with management and the internal auditors, significant findings during the year and management's responses thereto in relation to reliable reporting, corporate governance and adequate and effective internal control;
- Ensure that the internal audit function has the necessary resources and access to information to enable it to fulfil its programme and to perform its duties in accordance with the appropriate professional standards for internal auditors;
- Ensure that the internal audit objectives and goals, staffing, budgets and plans provide adequate support for the goals and objectives of the audit committee, as well as for the fulfilment of the internal audit charter;
- Review 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 unnecessary duplication of work;
- Review significant differences of opinion between management and the internal audit function;
- Monitor the maintenance of proper and adequate accounting records;
- Monitor the overall operational and financial reporting environment;
- Monitor and evaluate the performance of the internal audit function in terms of agreed goals and objectives;
- Consider and review any difficulties encountered in the course of the audits, including any restrictions on the scope of internal audit's work or access to required information;
- Consider any changes required in the planned scope of the internal audit coverage;
- Meet the chief audit executive or internal audit service provider at least once a year, without the presence of management, to discuss their role and any issues arising from the internal audits carried out; and
- Ensure that the chief audit executive or internal audit service provider has unrestricted access to the chairman of the audit committee and the chairman of the board.

5.7 Compliance with laws and regulations

The committee must consider the legal and regulatory requirements to the extent that it may have an impact on the financial statements.

They shall:

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance;
- Review the findings of any examinations by regulatory agencies, and any auditor observations;
- Obtain regular updates from the committee responsible for compliance matters, including tax compliance, litigation, disputes and claims; and
- Obtain reports from management, the internal auditor and the external auditor regarding compliance with all applicable legal and regulatory requirements.

5.8 Finance function

The committee shall review the expertise, resources and experience of the company's finance function, and disclose the results in the integrated report.



6 Meetings and Procedures

6.1 Agenda and Minutes

The committee must establish an annual plan for each year to ensure that all relevant matters are covered by the agendas of the meetings scheduled for the year.

The annual plan must ensure proper coverage of the matters laid out in the audit committee charter: the more critical matters will need to be attended to each year while other matters may be dealt with on a rotation basis. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan.

A detailed agenda, together with supporting documentation, must be circulated, at least one week prior to each scheduled meeting, to the members of the committee and other invitees.

Committee members must be fully prepared for committee meetings, to provide appropriate and constructive input on matters discussed.

The minutes must be completed as soon as possible after the meeting and circulated to the chairman and members of the committee for review thereof.

Matters to be covered in the minutes include:

- proceedings and resolutions of all meetings of the committee
- the names of those present and in attendance
- any conflicts of interest

Once approved, these minutes should be distributed to all the members of the board for information purposes.

6.2 Frequency

The committee must hold sufficient scheduled meetings to discharge all its duties as set out in these terms of reference but subject to a minimum of two meetings per year.

Reasonable notice of meetings confirming the venue, time and date; together with an agenda of items to be discussed, shall be forwarded timeously to each member of the committee, and any other person required to attend the meeting.

Meetings in addition to those scheduled may, with approval of the chairman, be held at the request of the external auditor, the chief executive officer, finance director, chief audit executive or other members of senior management or at the instance of the board.

The committee must meet with internal and external auditors at least once a year without management being present.

6.3 Attendance

Committee members shall attend all scheduled meetings of the committee, including meetings called on an *ad hoc*-basis for special matters, unless prior apology, with reasons, has been submitted to the chairman or company secretary.

The company secretary is the secretary to this committee.

If the nominated chairman of the committee is absent from a meeting, the members present must elect one of the members present to act as chairman.

The chief executive officer, finance director, chief audit executive, representatives from the external auditors, other assurance providers, professional advisors and board members may be in attendance at committee meetings, but by invitation only and they may not vote.

The finance director, chief audit executive and external auditor shall have unrestricted access to the chairman or any other member of the committee as is required in relation to any matter falling within the remit of the committee.

6.4 Quorum

A representative quorum for meetings is a majority of members of the committee.

Individuals in attendance at committee meetings by invitation may participate in discussions but do not form part of the quorum for committee meetings.

A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

7 Reporting

7.1 The chairman of the committee shall report to the board on its proceedings after each meeting on all significant matters within its duties and responsibilities as set out in this charter.

7.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

7.3 The chairman (or, in his/her absence, an alternate member) of the committee shall attend the Annual General Meeting to answer questions, through the chairman of the board, on the committee's activities and its responsibilities.

7.4 The committee shall compile a report to shareholders on its activities to be included in the company's annual report.

8 Authority of the committee and resources available

8.1 The committee has decision making responsibilities in terms of its statutory duties with respect to the appointment, fees and terms of engagement of the auditor.

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

- has unrestricted access to all information, including records, property and personnel of the group, and must be provided with adequate resources in order to fulfil its responsibilities;
- is authorised to investigate any activity within its terms of reference;
- may require other employees of the Company to attend meetings or parts of meetings;
- may consult with and seek any information it requires from any employee, and all employees shall be required to co-operate with any request made by the committee in the course of its duties;
- may invite external professional advisers to attend any meeting if it considers this necessary or appropriate; and
- may delegate its authority and duties to sub-committees or individual members of the committee as it deems appropriate, provided it is not precluded by legal or regulatory requirements from doing so.

8.2 In addition, the audit committee is allowed to consult with specialists or consultants to assist it with the performance of its functions, subject to a board approved process being followed. Such specialists or consultants are not members of the committee and are not entitled to vote on any matters.



9 Remuneration

- 9.1 Having regard to the functions performed by the members of the committee in addition to their functions as directors and in relation to the activities of the committee and pursuant to the specific power conferred upon the board by the articles of association/ memorandum of incorporation of the company, members of the committee shall be paid such special remuneration in respect of their appointment as shall be determined by the board.
- 9.2 The chairman of the committee shall, in addition to his/her remuneration as a member, receive a further sum as determined by the board.
- 9.3 Such special remuneration in terms hereof shall be in addition to the annual fees payable to directors.



10 General

- 10.1 The members of the committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members as may be necessary.
- 10.2 The committee should, on an annual basis, review its own performance and that of its members, constitution and terms of reference to ensure it is operating at maximum effectiveness.
- 10.3 The board must also perform an evaluation of the effectiveness of the committee every year.
- 10.4 This terms of reference shall be reviewed annually and amended as required, subject to the approval of the board.

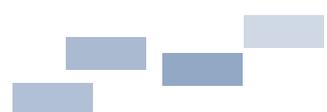
Signed by:

Board Chairman

Audit Committee Chairman

Date

Date





Contact details:

Thinglemony Pather

Director

KPMG

thingle.pather@kpmg.co.za

011 647 5037

www.acf.co.za

Parmi Natesan

Senior Manager

KPMG

parmi.natesan@kpmg.co.za

011 647 5963

www.acf.co.za