



cutting through complexity



INSTITUTE OF DIRECTORS  
SOUTHERN AFRICA

AUDIT COMMITTEE FORUM™

# Position Paper 1 (Replaced)

**Guidelines for establishing a private  
sector audit committee**


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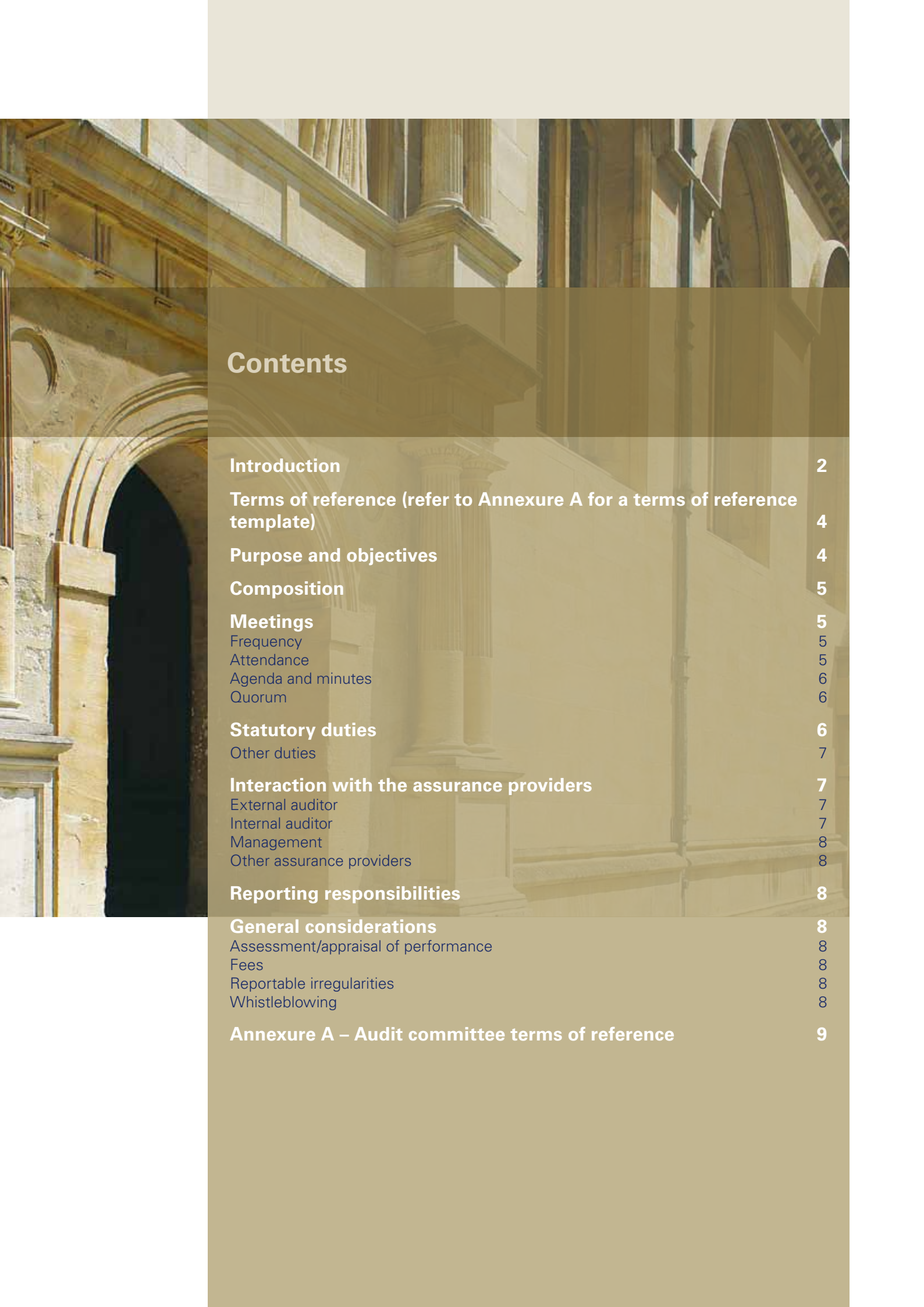
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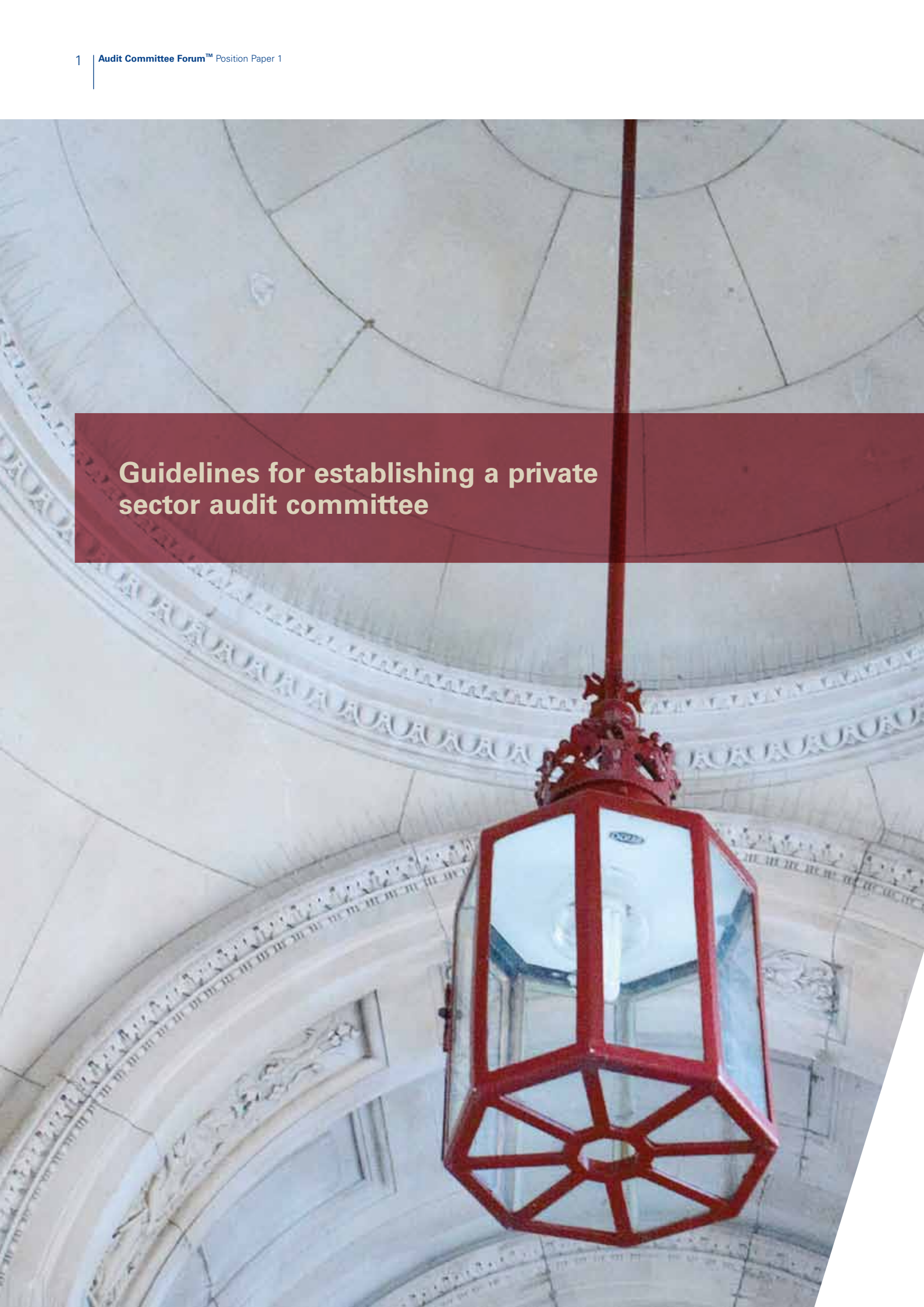


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A photograph of a large, ornate red lantern hanging from a ceiling with intricate architectural details. The lantern is made of a dark red metal frame with glass panels. The ceiling is a light-colored, possibly stone or plaster, dome with a grid of circular patterns and decorative moldings. The lighting is soft, highlighting the textures of the ceiling and the lantern.

## Guidelines for establishing a private sector audit committee

## Introduction

The purpose of this position paper is to assist an entity in establishing a private sector audit committee. In some instances, the responsibility for risk management is delegated to the audit committee while, in other cases, a separate risk management/monitoring committee is established by the board or management. In this position paper, the focus is on an audit committee that has an oversight responsibility over risk and there is a separate risk committee. It should be borne in mind that, owing to the close correlation between the risk environment and financial processes and controls, there should be provision for extensive co-operation and liaison between the audit committee and the risk committee; for example, by having overlapping membership.

An audit committee plays an essential role in overseeing the quality of financial reporting. By providing an effective, independent counterbalance to executive management, the audit committee upholds the independence of both internal and external auditors.

The audit committee does not assume the functions of management, the audit committee has an independent role, operating as an overseer and a maker of recommendations to the board of directors for their consideration and final approval.

Furthermore, the audit committee has oversight of the effectiveness of internal control processes and ensures that public financial reports, including, of course, the annual financial statements/integrated report, present fairly the entity's financial position and performance.

The audit committee is established to advise the board on matters specifically delegated to the committee in terms of the audit committee terms of reference and as required by statute.

The audit committee does not assume the functions of management, which remain the responsibility of the executive directors, general managers, officers and other members of senior management. The audit committee has an independent role, operating as an overseer and a maker of recommendations to the board of directors for their consideration and final approval. In terms of the Companies Act 71 of 2008, which became effective on 1 May 2011, and other relevant legislation, certain entities are required to establish audit committees; other entities are encouraged to follow these guidelines. (In this paper the reference to 'boards' refers to governing bodies such as, for



example, boards of directors and trustees.)

## Terms of reference

(refer to Annexure A for a terms of reference template)

An audit committee should have a formal terms of reference, approved by the board (or group board where the group audit committee undertakes the functions of the audit committee of the subsidiaries), which clearly sets out the role, responsibilities, objectives and duties delegated by the board and required by relevant legislation.

The terms of reference should:

- Provide a clear understanding of the committee's roles and responsibilities, which can be referred to by the board and the internal and external auditors;
- Define the overall purpose and objectives of the committee as well as its size, the skills and experience of members, tenure of members, frequency of meetings, reporting responsibilities, and authority to undertake special investigations and/or make use of experts;

- Be reviewed on a periodic basis to ensure that the committee objectives are being met, and be sufficiently flexible to adjust to the changing needs of the business;
- Require the audit committee to report to the board after each meeting of the audit committee on its activities and critical issues, including compliance with its terms of reference; and
- Require the audit committee to comply with its statutory and other duties.

## Purpose and objectives

For good governance purposes, the establishment of audit committees should be considered by all companies (where appropriate) and not just where required by legislation.

The audit committee members are appointed by the shareholders to assist the board in fulfilling their fiduciary duties, as well as to advise them about discharging their duties with regard to the operation of adequate systems and financial controls, corporate accountability, and the associated risks in terms of

management assurance and financial reporting.

The audit committee plays an independent role, making recommendations to the board with regard, inter alia, to:

- The approval of the financial statements and any formal financial announcements;
- The adequacy of internal controls and oversight of risk management (refer to Position Paper 6);
- The independence and effectiveness of the external auditor;
- The effectiveness of the internal audit (refer to Position Paper 7);
- The appointment and determination of fees paid to the external auditors, as required by the Companies Act 71 of 2008;
- The appointment and fees paid to outsourced internal auditors; and/or
- The remuneration paid to the Chief Audit Executive (head of internal audit).



# The committee's independence should allow it to discharge its functions and duties from a completely free and objective perspective.

## Composition

On an annual basis, the shareholders should appoint an audit committee of at least three members, each member of an audit committee must:

- be a director of the company
- not be -
  - involved in the day-to-day management of the company's business or have been so involved at any time during the previous financial year;
  - a prescribed officer, or full-time employee, of the company or another related or inter related company, or have been such an officer or employee at any time during the previous three financial years; or
  - a material supplier or customer of the company, such that a reasonable and informed third party would conclude in the circumstances that the integrity, impartiality or objectivity of that director is compromised by that relationship; and
- not be related to any person who falls within any of the criteria set out above.

The board should appoint a chairman who is not the chairman of the board.

It is considered best practice that the most appropriate number of members is between three and five (depending on the size and complexity of the entity). The committee should be large and diverse enough to represent a balance of views and experience, yet small enough to operate efficiently.

The minister prescribed minimum qualification requirements for

members of an audit committee as set out in Regulation 42, at least one-third of the members of a company's audit committee at any particular time must have academic qualifications, or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

The committee's independence should allow it to discharge its functions and duties from a completely free and objective perspective.

In order to preserve the collective independence of the audit committee, appointments to the audit committee should terminate if a committee member ceases to act independently. The chairman of the board should not be an audit committee member. Rotation should ensure a balance between maintenance of continuity and a fresh perspective.

Members of the audit committee must have the qualities and skills necessary to be effective audit committee members. As a body, the audit committee members should be informed, vigilant, and effective overseers of the financial reporting process. The Audit Committee Forum™ recommends that the majority of the members of the audit committee be financially literate and that the audit committee have access to financial reporting standards expertise and an understanding of the audit processes.

Each member of the audit committee should obtain an understanding of the entity's business, its products and services, and the industry sector in which it operates, and knowledge of its risks and controls; the audit committee members should also keep themselves informed of relevant changes to legal, accounting, disclosure and reporting standards.

The audit committee must have access to any information that it needs, including access to external resources, legal counsel, and financial and other professional advisors where necessary.

Audit committee members should be sufficiently available and able to contribute the necessary time to perform their duties adequately.

## Meetings Frequency

The audit committee should hold sufficient scheduled meetings per annum to discharge all aspects of the terms of reference fully.

The audit committee chairman may meet with the committee members immediately before and after each scheduled meeting to identify additional issues or concerns.

The audit committee or its chairman should have separate discussions with the external auditor, internal auditor and management on a regular basis to ensure that there are no unresolved issues of concern.

The time spent on audit committee meetings should be sufficient to meet changing and often increasing demands on the audit committee.

## Attendance

Audit committee members will normally attend all scheduled meetings of the committee, including meetings called on an ad-hoc basis for special matters.

The following individuals will normally be in attendance at audit committee meetings by invitation only:

- Chief Executive Officer;
- Chief Financial Officer;



- Chief Audit Executive;
- Representatives from the external auditors (including the external audit partner responsible for the audit, i.e. the designated auditor); and
- Other assurance providers as required (e.g. risk, legal counsel, forensics, and governance).

The following individuals may also be in attendance as required, by invitation only:

- Any other assurance providers (e.g. senior executives and professional advisers such as the Chief Information Officer/Compliance Officer) as deemed appropriate by the audit committee; and
- Risk Committee Chairman.

The chairman of the audit committee may invite the chairman of the board and other board members to attend all or part of an audit committee meeting (subject to any statutory constraints or limitations in the audit committee terms of reference) although they are not members of the audit committee.

The Company Secretary should be the secretary to the audit committee.

### Agenda and minutes

The audit committee should establish a plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year. (Refer to Position Paper 14 for a framework for the planning of audit committee activities).

The annual plan should ensure proper coverage of the matters laid out in the audit committee terms of reference: the more critical matters will need to be attended to each year while other matters may be dealt with on a rotation basis over a three-year period.

A detailed agenda should be prepared for all meetings and distributed to participants in advance of the meeting, and should address the issues for which the audit committee is responsible in terms of the terms of reference. Any supporting documentation to be tabled at the meeting should also be distributed with the agenda, sufficiently in advance of the meeting for members to prepare adequately.

Audit committee members should be fully prepared for the audit committee meetings, to provide appropriate and constructive input on matters discussed.

Minutes should be prepared and distributed to the committee and board members on a timely basis.

### Quorum

The audit committee's terms of reference should specify and define a representative quorum for meetings.

### Statutory Duties

An audit committee of a company has the following duties in terms of the Companies Act 71 of 2008:

- To nominate, for appointment as auditor of the company, a registered auditor who, in the opinion of the audit committee, is independent of the company;
- to determine the fees to be paid to the auditor and the auditor's terms of engagement;
- to ensure that the appointment of the auditor complies with the provisions of this Act and any other legislation relating to the appointment of auditors;
- to determine the nature and extent of any non-audit services that the auditor may provide to the company, or that the auditor must

not provide to the company, or a related company;

- to pre-approve any proposed agreement with the auditor for the provision of non-audit services to the company;
- to 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;
- to 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;
- to make submissions to the board on any matter concerning the company's accounting policies, financial control, records and reporting; and
  - to perform such other oversight functions as may be determined by the board.

# The audit committee and external auditor should develop a direct, strong, robust and candid relationship.

## Other duties

Other duties of the audit committee should include:

- Examining and reviewing the financial statements of the entity and any formal financial announcements, prior to submission and approval by the board;
- Reviewing significant accounting policies and financial reporting judgements contained in them;
- Reviewing the control environment and monitoring effectiveness of the internal control systems;
- Providing oversight of the risk monitoring process;
- Considering the entity's going concern status and writing a statement for inclusion in the annual financial statements;
- Monitoring and reviewing the effectiveness of the entity's internal audit function and the internal audit terms of reference and considering management's responses to internal audit findings and recommendations;
- Monitoring key matters arising out of the audit processes and satisfying itself that these are being adequately addressed;
- Monitoring the effectiveness of IT controls, taxation matters, and management letters;
- Recommending to the board the appointment and remuneration of the Chief Audit Executive;
- Reviewing the internal audit scope, timing and plan;
- Oversight of the risk management and monitoring processes;
- Promoting induction, training and development (where appropriate) of audit committee members;
- Reporting to the board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken; and
- Receiving sign-off from the relevant assurance providers.

Although the board may delegate many of its duties to the audit committee, the responsibilities delegated by the board cannot absolve the board from their accountability, except to the extent of the statutory duties delegated to the audit committee in terms of the Companies Act 71 of 2008 and where applicable, other legislation or regulations.

## Interaction with assurance providers

Developing an effective oversight process requires the active participation of the audit committee with the primary assurance providers: the external auditor, the internal auditor, management and other

assurance providers. To this end, the audit committee should understand the specific and unique role that each assurance provider plays in the financial reporting process and must hold each participant accountable. Furthermore, the audit committee should ensure co-operation among the various assurance providers.

## External auditor

The audit committee must satisfy itself of the independence of the external auditor.

The audit committee and external auditor should develop a direct, strong, robust and candid relationship. Lines of communication and reporting should facilitate independence from management and encourage the external auditor to speak freely, regularly and confidentially to the audit committee.

The audit committee should pre-approve all contracts with the external auditor for non-audit services. (Refer to Position Paper 4 for guidelines to the audit committee on approving non-audit services by the external auditor).

## Internal auditor

The audit committee plays a key role in ensuring that the internal audit function is competent and independent and has the necessary resources, standing and authority within the entity to enable it to discharge its functions effectively.

The audit committee must review and approve the internal audit plan,



ensuring that material risk areas are included and that the coverage of the business processes is acceptable, and must also call for reports from internal auditors in meeting its objectives and fulfilling its duties.

The Chief Audit Executive reports directly to the audit committee and its chairman (although administratively this function falls within management).

### Management

In establishing the appropriate tone from executive management, the entity's leaders should be unequivocal in their insistence on integrity, accuracy and transparency in reporting to stakeholders.

The audit committee, as part of the governance structure of an entity, should continually assess whether executive management exhibits the appropriate tone and whether that tone is filtering down to the rest of the entity. Also, the audit committee should ensure that the entity's Code of Conduct and Ethics is implemented and supported by top management.

The audit committee must ask probing questions about the entity's financial reporting process and be willing to challenge management's assertions when necessary.

### Other assurance providers

In order to fulfil its duties the audit committee may need to call upon other assurance providers, such as the Risk Committee Chairman, Company Secretary, Legal Advisor, Actuary,

Compliance Officer and so on. Again, the audit committee should understand the specific and unique role that each assurance provider plays in the financial reporting process and must hold each participant accountable for their particular responsibility to the entity.

### Reporting responsibilities

The chairman of the audit committee should account to the board for the committee's activities and make recommendations to the board concerning the approval of the financial statements and other matters arising from its responsibilities.

The chairman of the audit committee should attend the annual general meeting (AGM) to respond to questions on matters falling within the ambit of the audit committee's responsibilities.

In terms of the Companies Act 71 of 2008, the audit committee is required to 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 committee concides appropriate on the financial statements, the accounting practices and the

internal financial control of the company.

## General considerations

### Assessment/appraisal of performance

The audit committee should, in addition to its self-evaluation process, be subject to regular evaluation by the board to ascertain its performance and effectiveness.

### Fees

The board, on the recommendation of the remuneration committee (where applicable), should determine the fees for audit committee members, taking into consideration the complexity of the entity and the amount of time spent. Where applicable, these fees are subject to shareholder or member approval. In terms of Section 66(9) of the Companies Act 71 of 2008, remuneration paid to directors for their service as directors may be paid only in accordance with a special resolution approved by the shareholders within the previous two years.

### Reportable Irregularities

The committee should ensure that the entity establishes a policy for the receipt, consideration, resolution and reporting of Reportable Irregularities.

### Whistleblowing

The committee should ensure that mechanisms are established by the entity to receive, consider and address matters raised in confidence, protecting the identity and job security of the informants.



## Annexure A – Audit committee terms of reference

This template has been drafted from the audit committee terms of references of a number of major organisations and is in compliance with the Companies Act 71 of 2008 and the King Report on Corporate Governance.

This template should be adapted and customised for the size and complexity of the entity and the duties as delegated to the audit committee by the board.

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) in respect of its statutory duties in terms of section 94(7) of the Companies Act 71 of 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 the 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 and 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 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:
- 2.4 In addition the audit committee will liaise with and monitor the activities of the other audit committees in the group.

### 3. Membership

- 3.1 The committee must comprise at least three members to be elected by the shareholders on recommendation of the nominations and other board committee.
- 3.2 Members of the committee must be non-executive directors and not be
  - Involved in the day to day management of the company's business or have been so involved at any time during the previous financial year;

- A prescribed officer, or full-time employee, of the company or another related or inter-related company, or have been such an officer or employee at any time during the previous three financial years: or
  - A material supplier or customer of the company such that a reasonable and informed third party would conclude in the circumstances that the integrity, impartiality or objectivity of that direction is compromised by that relationship; and
  - Related to any person who falls within any of the criteria set out above.
- 3.3 The board committee 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. The JSE has issued guidance in this regard which allows the chairman of the board to serve as a member of the audit committee.
  - 3.4 At least one-third of the members of a company's audit committee at any particular time must have academic qualifications or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management as prescribed by the minister.
  - 3.5 Independence requirements in terms of King III:
 

“All members of audit committees of a public company and state-owned company must be independent non executive directors”

An independent non-executive director is a non-executive director who:

- Is not a representative of a shareholder who has the ability to control or significantly influence management or the board;
- Does not have a direct or indirect interest in the company (including any parent or subsidiary in a consolidated group with the company) which exceeds 5% of the group's total number of shares in issue;
- Does not have a direct or indirect interest in the company which is less than 5% of the group's total number of shares in issue, but is material to his personal wealth;
- Has not been employed by the company or the group of which it currently forms part in any executive capacity, or appointed as the designated auditor or partner in the group's external audit firm, or senior legal adviser for the preceding three financial years;
- Is not a member of the immediate family of an individual who is, or has during the preceding three financial years, been employed by the company or the group in an executive capacity;
- Is not a professional adviser to the company or the group, other than as a director;
- Is free from any business or other relationship (contractual or statutory) which could be seen by an objective outsider to interfere materially with the individual's capacity to act in an independent manner, such as being a director of a material customer of or supplier to the company; or
- Does not receive remuneration contingent upon the performance of the company.

3.6 The Chairman of the risk committee will be an ex officer member/interventee of this committee.

3.7 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 agreement 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;
  - 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 oversight as may be determined by the board.
- In addition, for listed entities<sup>1</sup>, "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

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;

<sup>1</sup> JSE Listing requirements paragraph 3.84

## Annexure A – Audit committee terms of reference, continued

- 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 the management response to the auditors 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 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.
- 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 judgement which are included in the financial statements;
  - The impact on 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 as a going concern;
  - Capital adequacy;
  - Compliance with the 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 the statements are made;
  - Reviewing the directors statement to be included in the annual financial statements, including the statement of effectiveness of the systems 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 the 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 the 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 on the annual 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 information.

### 5.4 Combined Assurance

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

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 relates to financial reporting and;
- IT risks as it relates to financial reporting.

### 5.6 Internal audit

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 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;
- 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;

## Annexure A – Audit committee terms of reference, continued

- Review the co-operation and co-ordination between the internal and external audit functions 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 managements 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, 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.

## Annexure A – Audit committee terms of reference, continued

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8.3 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 Memorandum of Incorporation of the company, members of the committee shall be paid such special remuneration in respect of their appointment. The remuneration paid are in accordance with a special resolution approved by the shareholders within the previous two years.

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





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