

PRACTICENOTES

King III Chapter 2 & 3
Audit Committee Terms of Reference

September 2009

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Audit committee terms of reference

These terms of reference have been drafted for the specific purposes of a public company or a state-owned company. In the case of other categories of companies, the terms should be adjusted to reflect that the audit committee is a board committee with responsibilities as delegated by the board (as opposed to also being a statutory committee with statutory duties). We have also assumed with the drafting of this document that there is a separate risk committee. This practice note is illustrative only and should be tailored as appropriate.

Introduction

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.

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.

These terms of reference are subject to the provisions of the Companies Act, the Company's Memorandum of Incorporation and any other applicable law or regulatory provision.

Purpose of the terms of reference

The purpose of these terms of reference is to set out the Committee's role and responsibilities as well as the requirements for its composition and meeting procedures.

Composition of the Committee

The Committee comprises at least three members to be elected by the shareholders on recommendation by the Nominations Committee (where one exists).

The chairman of the Risk Committee will be an *ex officio* member of this Committee. All members of the Committee must be suitably skilled and experienced independent non-executive directors.

The members of the Committee must 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; information technology governance as it relates to integrated reporting; and governance processes within the company.

The chairman of the board is not eligible to be the chairman or a member of the Committee.

The Committee is chaired by an independent non-executive director.



The board elects the chairman of the Committee.
The board must fill vacancies on the Committee within 40 business days after the vacancy arises.

The Committee members must keep up-to-date with developments affecting the required skill-set.

Role

The Committee has an independent role with accountability to both the board and shareholders. The Committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

Responsibilities

The Committee has the following specific responsibilities:

Integrated reporting

The Committee oversees integrated reporting, and in particular the Committee must:

- i. have regard to all factors and risks that may impact on the integrity of the integrated report, including factors that may predispose management to present a misleading picture, 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;
- ii. 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;
- iii. comment in the annual financial statements on the financial statements, the accounting practices and the effectiveness of the internal financial controls;
- iv. review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- v. recommend to the board the engagement of an external assurance provider on material sustainability issues;
- vi. recommend the integrated report for approval by the board;
- vii. consider the frequency for issuing interim results;
- viii. consider whether the external auditor should perform assurance procedures on the interim results
- ix. review the content of the summarised information for whether it provides a balanced view; and
- x. engage the external auditors to provide assurance on the summarised financial information.

Combined assurance

The Committee will ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular the Committee should:

- i. ensure that the combined assurance received is appropriate to address all the significant risks facing the company; and



- ii. monitor the relationship between the external assurance providers and the company.

Finance function and financial director

The Committee reviews the expertise, resources and experience of the company's finance function, and discloses the results of the review in the integrated report.

The Committee also considers and satisfies itself of the suitability of the expertise and experience of the financial director every year.

Internal audit

The Committee is responsible for overseeing of internal audit, and in particular the Committee must:

- i. be responsible for the appointment, performance assessment and/or dismissal of the Chief Audit Executive;
- ii. approve the internal audit plan; and
- iii. ensure that the internal audit function is subject to an independent quality review, as and when the Committee determines it appropriate.

Risk management

The Committee is an integral component of the risk management process and specifically the Committee must oversee:

- i. financial reporting risks;
- ii. internal financial controls;
- iii. fraud risks as it relates to financial reporting; and
- iv. IT risks as it relates to financial reporting.

External audit

The Committee is responsible for recommending the appointment of the external auditor and to oversee the external audit process and in this regard the Committee must

- i. nominate the external auditor for appointment by the shareholders;
- ii. approve the terms of engagement and remuneration for the external audit engagement;
- iii. monitor and report on the independence of the external auditor in the annual financial statements;
- iv. define a policy for non-audit services provided by the external auditor;
- v. pre-approve the contracts for non-audit services to be rendered by the external auditor;
- vi. ensure that there is a process for the audit committee to be informed of any Reportable Irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor;
- vii. review the quality and effectiveness of the external audit process; and
- viii. consider whether the audit firm and, where appropriate, the individual auditor that will be responsible for performing the functions of auditor, are accredited as such on the JSE list of Auditors and their advisors as required by the JSE Limited Listings Requirements.

Authority

The Committee has decision-making authority in regard to its statutory duties and is accountable in this respect to both the board and the shareholders. To this end the chairman of the Committee must be present at all annual general meetings. On all responsibilities delegated to it by the board outside of the statutory duties, the Committee makes recommendations for approval by the board.

The Committee acts in accordance with its statutory duties and the delegated authority of the board as recorded in this terms of reference. It has the power to investigate any activity within the scope of its terms of reference.

The Committee, in the fulfilment of its duties, may call upon the chairmen of the other board committees, any of the executive directors, company officers, company secretary or assurance providers to provide it with information subject to board approved process.

The Committee has reasonable access to the company's records, facilities, employees and any other resources necessary to discharge its duties and responsibilities subject to following board approved process.

The Committee may form, and delegate authority to, subcommittees and may delegate authority to one or more designated members of the Committee.

The Committee has the right to obtain independent outside professional advice to assist with the execution of its duties, at company's cost, subject to a board approved process being followed.

Meetings and Procedures

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.

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, chief financial officer, 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.

Attendance

The chief executive officer, chief financial officer, 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.

Committee members must 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.

Agenda and minutes

The Committee must establish an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned 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 over a three-year period. 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 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. The minutes must be formally approved by the Committee at its next scheduled meeting.

Quorum

A representative quorum for meetings is a majority of members present. Individuals in attendance at Committee meetings by invitation may participate in discussions but do not form part of the quorum for Committee meetings.

Evaluation

The board must perform an evaluation of the effectiveness of the Committee every year.

Approval of these terms of reference

These terms of reference were approved by the Chairman of the board and the Chairman of the Committee on [insert date] and will be due for review on [insert date].

