Audit Committee Resource Guide

References

The King IV Report on Corporate Governance for South Africa 2016 (King IV)
Companies Act 71 of 2008
Johannesburg Stock Exchange Listings Requirements
The SAICA Guide to the Companies Act
Financial Reporting Council (UK) Guidance on Audit Committees

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SECTION 1

Audit committee leading practices and trends

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Audit committee leading practices and trends

The following is a summary of certain leading practices for audit committees. It is not all inclusive, but it can be used to help assess audit committee practices and to discuss agendas and other considerations.

Committee dynamics

- Focus on committee composition, including independence, financial expertise, risk management, broad business or leadership experience, and succession planning
- Limit the number of audit committee members to four or five to optimise effectiveness
- Conduct an annual committee self-evaluation
- Consider periodically rotating audit committee members, including the chairman
- Encourage discussion, rather than presentation, at meetings
- Participate in audit committee education activities
- Engage independent advisers when needed
- Meet at least quarterly, or more frequently as circumstances dictate
- Maintain appropriate coordination between the audit committee and other board committees.

Self-assessment and evaluation of effectiveness

- Review and approve the audit committee charter and align activities with a calendar that incorporates required activities and allows flexibility for additional topics
- Develop meeting agendas in consultation with management; resist the urge to repurpose existing agendas without discussion
- Align audit committee meeting materials and agendas with priority areas
- Distribute briefings and other materials well in advance of meetings
- Reports should include executive summaries that highlight issues and critical discussion points to allow for discussion versus presentation during meetings
- Manage meeting attendees to allow open and candid discussions
- Perform a robust self-assessment annually
- Discuss the results of the self-assessment with the audit committee in an executive session and develop tactical actions to address findings.

Oversight of internal controls, financial reporting and integrated reporting

- Understand key controls and reporting risk areas as assessed by financial management, the internal auditors, and the external auditor
- Emphasise oversight of corporate taxes, an area where high-risk and big-money decisions are made
- Leverage the value of internal controls beyond compliance
- Consider levels of authority and responsibility in key areas, including pricing and contracts, acceptance of risk, commitments, and expenditures
- Understand complex accounting and reporting areas and how management addresses them
- Understand significant judgements and estimates used by management andtheir impact on the financial statements, such as fair-value accounting and related assumptions
- Anticipate and understand how regulatory developments and reporting developments in the areas of financial, sustainability reporting and integrated reporting may affect the company, particularly its talent needs.

Risk oversight

- Focus on financial risks, fraud risk and other risks that may affect the integrity of external reports
- Increase the focus on risk oversight and assessment
- Avoid becoming overly dependent on forms or tools for monitoring risk
- Periodically reassess the list of top risks, determining who in management and which board committee is responsible for each
- Evaluate information technology (IT) projects (with a focus on financial reporting), including IT milestones and reporting against them, especially for IT transformation
- Have appropriate leaders in the business make a presentation at a board or audit committee meeting to enhance the members' understanding of the business and risks and to evaluate the depth of talent effectiveness.

Interaction with the external auditor

- Exercise ownership of the relationship with the external auditor
- Get to know the lead partners and meet periodically with specialists (such as tax, IT, actuarial, regulatory)
- Establish expectations regarding the nature and method of communication, as well as the exchange of insights
- Engage in regular dialogue outside the scheduled meetings
- Set an annual agenda with the external auditor
- Focus on the external auditor's qualifications, performance, independence, and compensation, including a preapproval process for audit and non-audit services
- Provide formal evaluations and regular feedback.

Partnership with the CFO and other management

- Focus on the tone at the top, culture, ethics, and hotline monitoring
- Conduct annual evaluations of the CFO
- Engage in the identification of potential issues
- Understand plans to address new accounting and regulatory reporting requirements
- Provide input to management's goal-setting process
- Discuss succession planning for the CFO and staff
- Conduct pipeline and staff reviews, including identification of high-potential personnel.

Executive (private) sessions

- Audit committee meetings should be preceded or followed by private sessions with the CFO, the internal auditors, and the external auditor
- Use an executive session for committee members to discuss how the meeting went and to identify agenda topics for future meetings
- Discuss succession plans for the finance organisation with the CEO and CFO annually during a private session
- Establish expectations as to what sort of topics and discussions are expected of the external auditor in private sessions.

Executive compensation

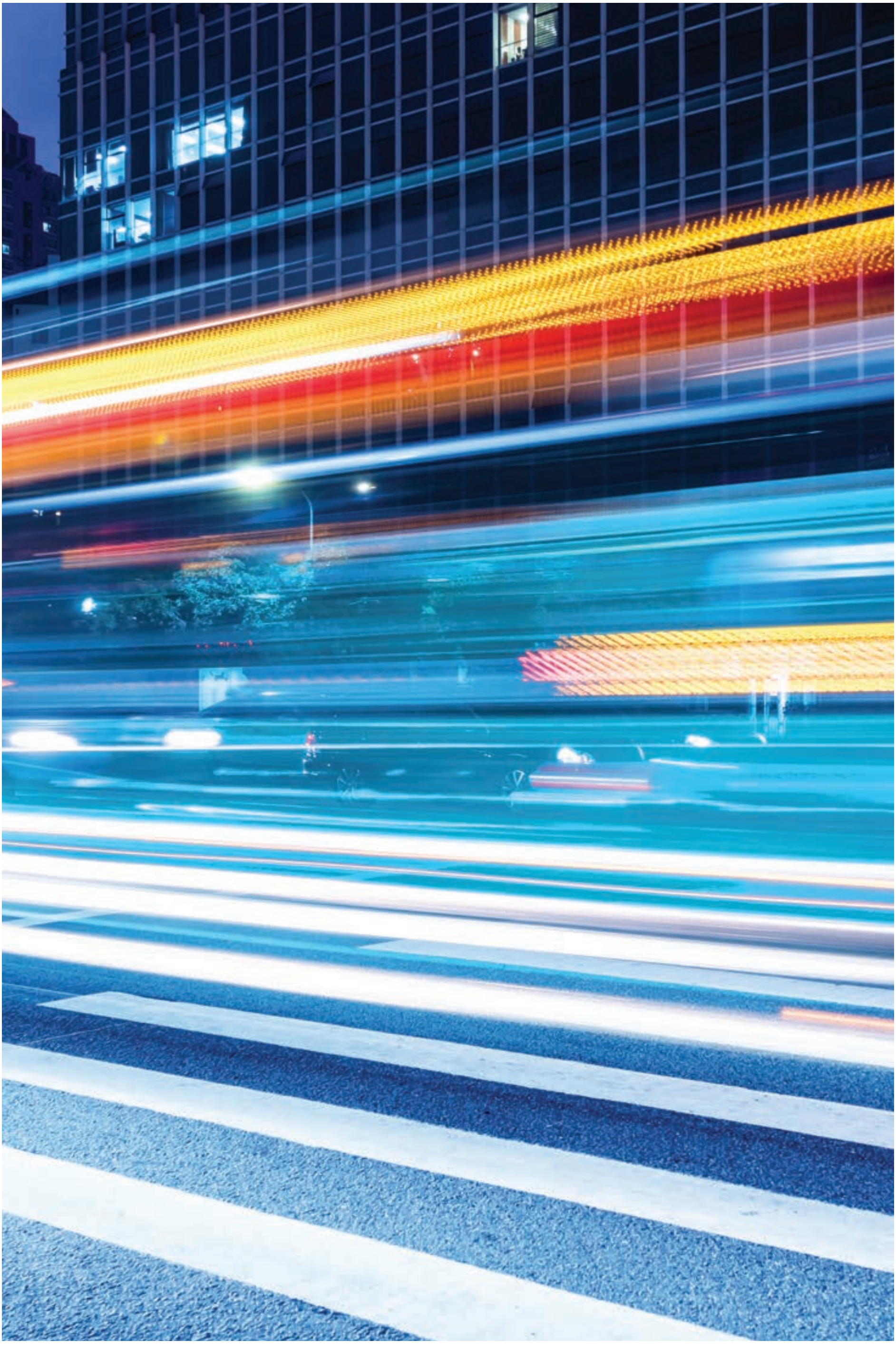
- Coordinate with the remuneration committee on incentive compensation goals
- Work with the remuneration committee to understand the implications of the incentive structure, including its impact on employee retention and potential increases in fraud risk
- Increase focus on the compensation of officers and directors, including the appropriate use of corporate assets.

Interaction with the internal auditors

- Ensure that the internal auditors have direct access to the audit committee
- Consider having internal audit report directly to the audit committee and administratively to senior management
- Play an active role in determining the highest and best use of internal audit, as well as the appropriate structure of the group (such as in-house versus outsourced resources)
- Be involved with the internal audit risk assessment and audit plans, including activities and objectives regarding internal control over financial reporting
- Conduct annual evaluations of the chief audit executive
- Understand internal audit staffing, funding, and succession planning, particularly the adequacy of resources; consider performing peer benchmarking to compare relevant metrics.

Orientation and continuing education

- Address board education in the company's corporate governance guidelines to be consistent with JSE listing requirements
- Provide orientation of new members that involves company executives, internal audit, and the external auditor
- Include educational topics on the agenda 1-2 times per year; topics may include a deep dive on a specific area of the business and related risks, or a refresher on a significant accounting estimate
- Consider offering annual continuing education opportunities in financial reporting and other areas relevant to the audit committee (e.g. specialised or regulated industry matters, new regulations, operations, and emerging topics such as cybersecurity).



SECTION 2

Audit committee composition

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Audit committee composition

The King IV Report on Corporate Governance for South Africa 2016 (King IV) emphasises the vital role of an audit committee in ensuring the effectiveness of the organisation's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function, and the integrity of the annual financial statements and other external reports issued by the organisation. The key role of the audit committee is echoed in the Companies Act, 2008 (Act No 71 of 2008) (the Companies Act or the Act) and the JSE Listings Requirements.

Appointment of the audit committee

The Companies Act requires public companies and state owned companies to appoint an audit committee. In addition, any other type of company (private company, personal liability company or non-profit company) that provides for the appointment of an audit committee in their Memorandum of Incorporation must comply with the relevant provisions of the Act "to the extent provided for in the Memorandum of Incorporation". In our experience, very few private companies choose to include a requirement in its Memorandum of Incorporation for the appointment of an audit committee.

Notwithstanding the requirements of the Companies Act, King IV proposes that ALL companies should have an audit committee. In terms of the JSE Listings Requirements the appointment of the committee should be considered in accordance with the recommended practices in the King Code on an apply and explain basis, provided that each committee must comprise of at least three members.

The Companies Act states that, where the appointment of an audit committee is required, the audit committee must be appointed by the shareholders at every annual general meeting. The audit committee is not only appointed by shareholders, but also reports to shareholders in the annual financial statements (see below). The fact that shareholders have to appoint the members of the audit committee on an annual basis highlights the important role of the board's nomination committee. As all audit committee members must be directors (members of the board), it is important that the nominations committee identifies suitably skilled and qualified directors to nominate for appointment by the shareholders. Of course, the shareholders may appoint any director they deem fit and proper, as long as that director qualifies for appointment in terms of the Companies Act.

Ethical leadership and social responsibility is highlighted in King IV. These same sentiments are echoed in the Companies Act. Although it may be argued that the provisions of the Companies Act with respect to the appointment of the audit committee are onerous and prescriptive, it should be acknowledged that the intention is for the audit committee to play a key role in ensuring accountability and transparency. As an independent, objective body, it should function as the company's independent watchdog to ensure the integrity of financial statements, internal financial controls, combined assurance, effective financial risk management, and meaningful integrated reporting to shareholders and stakeholders alike.

Section 94 of the Companies Act determines that the audit committee must consist of at *least three* members who must be directors of the company and not:

- be involved in the day-to-day management of the company for the past financial year
- be a full-time employee for the company for the past three financial years
- be 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
- be related to anybody who falls within the above criteria.

The requirements of section 94 are prescriptive. Should the company appoint an audit committee with members other than those that meet the requirements for appointment in section 94, it will not be an 'audit committee' as required by the

Companies Act. As a result, any functions undertaken by a non-compliant (that is an "improperly constituted") audit committee will not have been performed by the audit committee as required by the Companies Act. This may impact the actions of the committee (including the process to nominate and appoint the external auditor), and may even result in liability for the committee members.

The audit committee can consist of as many members as the company wishes to appoint (at least three), but each member must meet the criteria and must be a director of the company. In instances where an audit committee comprises more than three members, each of these members must meet the requirements for membership set out in the Act – if one member does not meet the requirements, there would be an improperly constituted audit committee, and in effect no audit committee at all.

The formally appointed members of the audit committee entitled to vote and fulfil the functions of the audit committee will have to meet the criteria (non-executive independent directors) in accordance with the prescribed requirements. However, the audit committee may invite knowledgeable persons to attend its meetings, and may utilise advisors and obtain assistance from other persons inside and outside of the company.

As stated above, the JSE requires listed companies to appoint an audit committee in line with the requirements of the Companies Act, and consider the practices of King IV on an apply or explain basis. In this regard it is important to note that King IV recommends that the chair of the board should not be a member of the audit committee.

Independence of audit committee members

The independence of audit committee members should be subject to review at least annually and more often as necessary. Companies that are required, in terms of the Companies Act, to appoint an audit committee should have policies in place to facilitate timely identification of changing relationships or circumstances that may affect the independence of audit committee members. Many companies require directors to complete an independence questionnaire when appointed to the board and annually thereafter, and to notify the company of any changes that may affect independence. For audit committee members, these questionnaires should be tailored to reflect the independence criteria set out in King IV and the Companies Act, as summarised below. Companies may want to involve legal counsel in assessing the independence of directors. Regardless, the Companies Act requires the annual appointment of the audit committee, which provides an ideal opportunity for the nominations committee to re-assess the independence of the audit committee members.

The Companies Act and King IV require audit committee members to be independent.

The question often arises as to whether or not shareholders of the company (or even representatives of the shareholder) may be appointed to the audit committee. This question often arises where companies have a BEE partner. The Companies Act makes no reference to shareholding as a disqualification from membership of the audit committee, and the value judgement pertaining to independence relates only to suppliers and customers. The mere fact that a person holds shares in the company (or represents a shareholder) would not in itself preclude such a person from serving as a member of the audit committee. However, it is proposed that, in line with the best practice principles set out in King IV, the appointment of shareholders or shareholder representatives to the audit committee should be carefully considered. A judgement on the effect of the shareholding or other relationships is required in order to establish the likely impact on the independence of a particular person. It should be noted that from a JSE perspective, any director that participates in a share incentive/option scheme, will not be regarded as independent.

For listed companies, the definition of independence as set out in King IV applies. The concept of independence has evolved from the position in King III. Whereas King III provided a list of disqualifications from independence (i.e. where any of the listed disqualifications applied, a director is regarded as non-independent), King IV takes a more practical approach and rather focuses on the perception of independence. As such, factual independence or a tick-box approach is replaced by a much more balanced assessment of independence which requires consideration of substance over form. It is thus possible for someone that meets one or more of the (King III) disqualification criteria to nevertheless be regarded as independent. Although King IV rejects a tick-box approach for the independence assessment, it does provide a list of factors/criteria which may be considered during the independence inquiry. It is down to the Board to determine if a director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The yardstick for purposes of this assessment will be the perception of a reasonable and informed third party, i.e. whether or not an informed and reasonable outsider regards a director as independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. The key question to be answered here is whether or not, a director has an interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, that is likely to influence unduly or cause bias in decision-making in the best interest of the company. In other words, what is the perception of independence of an informed and reasonable third party?

Where a company chooses to combine the audit and risk committee, membership of the committee should be carefully considered. Preferably, membership of the risk committee should include executive and non-executive directors. Given the difference in the membership of the risk and audit committees respectively, companies must ensure that in these instances the membership of the combined committee meets the more stringent independence criteria of the audit committee as set out in the Companies Act and King IV, i.e. the committee may only comprise independent non-executive directors.

Overview of the requirements relating to independence.

Companies Act
Independent if: • The director was not involved in the day-to-day management of the business for the previous financial year • The director was not a full-time employee or prescribed officer of the company or a related company during the previous three financial years • The director is not 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 • The director is not related to anybody who falls within the above criteria.

JSE Listings Requirements

Independence of directors should be determined holistically on a substance over form basis in accordance with the indicators provided in section 94(4) of the Companies Act and the King Code. In addition, it must be noted that any director that participates in a share incentive/option scheme, will not be regarded as independent.

King IV

The board should consider the following and other indicators holistically, and on a substance-over-form basis, when assessing the independence of a member of the governing body for purposes of categorisation: The director:

- is a significant provider of financial capital, or ongoing funding to the organisation; or is an officer, employee or a representative of such provider of financial capital or funding
- if the organisation is a company, participates in a share-based incentive scheme offered by the company
- if the organisation is a company, owns securities in the company the value of which is material to the personal wealth of the director
- has been in the employ of the organisation as an executive manager during the preceding three financial years, or is a related party to such executive manager
- has been the designated external auditor responsible for performing the statutory audit for the organisation, or a key member of the audit team of the external audit firm, during the preceding three financial years
- is a significant or ongoing professional adviser to the organisation, other than as a member of the governing body
- is a member of the governing body or the executive management of a significant customer of, or supplier to, the organisation
- is a member of the governing body or the executive management of another organisation which is a related party
- is entitled to remuneration contingent on the performance of the organisation.

The board should always consider the independence of a director from the perspective of a reasonable and informed third party.

Qualifications and financial literacy

King IV requires that the audit committee should, as a collective, have the necessary skill and experience to meet its obligations. This should be considered by the nominations committee prior to the AGM when they nominate members for appointment to the audit committee. As a collective, the audit committee should have a good understanding of:

- internal financial controls
- external audit process
- internal audit process
- corporate law
- risk management
- sustainability issues
- integrated reporting, which includes financial reporting
- governance of information and technology
- the general governance processes within the company.

The Companies Act requires at least one third of the members of the audit committee to have academic qualifications, or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

Audit committees should regularly review their composition and membership to confirm that they encompass the knowledge and experience needed to be effective. In addition to industry knowledge, committee members should have a strong grasp of key financial reporting and accounting issues, such as going concern, revenue recognition, areas of significant judgement including goodwill measurements and accounting for intangible assets, pensions and other postemployment benefits, financial instruments and other critical accounting policies, including how these policies compare to industry practices. Internal controls relevant to financial reporting are particularly important since these form the basis for the prevention and detection of fraud or error in financial reporting.

In order for the audit committee to function optimally, it is necessary for the members to be financially literate. Members of the audit committee should have a detailed understanding of financial reporting, which may include:

- An understanding of financial statements and international financial reporting standards (IFRS)
- an ability to assess the general application of IFRS in connection with the accounting for estimates, accruals, and reserves
- experience preparing, auditing, analysing, or evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to what can reasonably be expected to arise in the issuer's financial statements, or experience actively supervising those engaged in such activities
- an understanding of internal control over financial reporting
- an understanding of the audit committee's functions.

Audit committee financial literacy recommendations

- Self-assessment should be thorough, not merely a compliance exercise, and should be repeated periodically
- Members should understand auditing, accounting, and financial reporting issues relevant to the company and how management and the external auditor address them
- Committees should anticipate and understand how pending financial reporting and regulatory developments may affect the company, and particularly its talent needs
- Members should focus on committee composition, including independence, financial expertise, risk management, broad business or leadership experience, and succession planning.

Director qualification disclosure requirements. King IV proposes that the names, qualifications and experience of the members of the audit committee be disclosed. It is recommended that the disclosure should include information about the experience, qualifications, and attributes considered in the nomination process and the reasons why individuals should serve on the company's board and or audit committee.

Questions for audit committees to consider

- Are audit committee members completing routine financial literacy self-assessments?
- Does the financial literacy self-assessment reflect recent developments?
- Are modifications to the committee's education plan necessary?
- Are the audit committee's training and education programmes designed to maintain financial literacy?

SECTION 3

Key responsibilities

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Audit committee charter and agenda
An annual review of the charter is recommended for all audit committees. Updates may be necessary as a result of:

- changes in regulatory or legal requirements
- the board's delegation of new responsibilities to the audit committee or reassignment of certain responsibilities that are not required of the audit committee by law or regulation
- changes in the company's Memorandum of Incorporation that affect the composition of the committee or how members are appointed
- identification of the practices the committee wants to include among its responsibilities.

To help execute its role in a timely and efficient manner, the audit committee may use the responsibilities outlined in the charter to develop an annual calendar and meeting agendas. In addition to addressing responsibilities prescribed in the Companies Act, the charter should address the audit committee's key recurring responsibilities as well as its responsibility for significant transactions and unusual events. The charter also should allow the committee to meet outside the official calendar dates when needed. Concurrent with the charter review, the committee should examine its calendar of company's activities and consider modifications based on the changes to the charter. The committee may also reconsider the frequency and timing of company's activities already on the calendar.

In updating the charter and calendar, it may be helpful to consult with management, the internal auditors and the external auditor. When appropriate, the committee should also seek legal counsel in reviewing its charter and the calendar

Tools and resources. Deloitte has developed a template to assist audit committees in drafting an appropriate charter. Best practice has been selected from a number of existing charters and relevant literature, such as the Companies Act and King IV has been considered. The sample, which is reflected as Appendix A, may be used with the calendar-planning tool in Appendix B.

When reviewing the audit committee charter, care should be taken to include the duties of the audit committee as prescribed in the Companies Act, the JSE Listings requirements (for listed companies), and King IV.

Functions of the audit committee

The legislated duties of the audit committee, as set out in the Companies Act, are:

- Nominating an auditor that the audit committee regards as independent
- determining the audit fee and the auditor's terms of engagement
- ensuring that the appointment of the auditor complies with the Companies Act and other relevant legislation
- determining the nature and extent of non-audit services
- pre-approving any proposed agreement with the auditor for the provision of non-audit services
- preparing a report to be included in the annual financial statements describing how the committee carried out its functions, stating whether the auditor was independent, and commenting on the financial statements, accounting practices and internal financial control measures of the company
- receiving and dealing with relevant complaints
- making submissions to the board regarding the company's accounting policies, financial controls, records and reporting
- any other function designated by the board.

In addition to the legislative duties set out above, King IV proposes a number of additional functions, including:

- Oversight of the internal audit function
- playing a key role in the risk management process and performing oversight of financial risks and reporting, internal financial controls and fraud and risks relating to information and technology as they relate to financial reporting
- ensuring that a combined assurance model is applied to provide a coordinated approach to all assurance provided on company activities
- satisfying itself with regard to the expertise, resources and experience of the finance function
- oversight of the external audit process
- disclosing its views on audit quality with reference to audit quality indicators.

The JSE Listings Requirements adds to this list in that it requires the audit committee to:

- ensure that the issuer has established appropriate financial reporting procedures and that those procedures are operating
- requesting relevant information from the auditors in order to assess the suitability for appointment of the audit firm and designated individual partner
- ensuring that the proposed individual auditor does not appear on the JSE list of disqualified individual auditors when recommending an auditor for appointment or re-appointment at the annual general meeting.

Since the Companies Act prescribes the appointment process, composition and functions of the audit committee, it can be described as a statutory committee. The audit committee will bear sole responsibility for its decisions pertaining to the appointment, fees and terms of engagement of the auditor. On all other matters it remains accountable to the board and, as such, it will function as a board committee. In instances where a company fails to appoint an audit committee where the Act requires such appointment, or the composition of the committee does not comply with the requirements of the Act (i.e. there is no statutory audit committee), the board of the company may be able to perform some of the functions of the audit committee as set out above. However, the Act poses restrictions as to which duties the board may perform. Section 94(10) restricts the board from taking on the duties of the audit committee relating to auditor appointment, fees and terms of engagement of the auditor.

Reporting and disclosure

The audit committee is obliged to report to shareholders by including in the *annual financial statements* a report describing:

- How the audit committee carried out its functions
- stating whether the auditor was independent
- commenting on the financial statements, accounting practices and internal financial control measures of the company.

King IV proposes that the audit committee makes a number of disclosures in addition to the disclosures required in terms of the Companies Act. The intention is to demonstrate accountability and transparency, and provide stakeholders with a level of comfort that the audit committee fulfils its function diligently.

It is proposed in King IV that the audit committee should include the following information in the audit committee report:

- a summary of the role of the audit committee
- an indication that all the members of the committee comply with the statutory requirements as per the Companies Act, as well as the names and qualifications of all members of the audit committee during the period
- the number of audit committee meetings, and the record of attendance of the different members
- an overview of the results of the audit committee's performance evaluation
- a statement as to whether the audit committee is satisfied that the external auditor is independent of the organisation. The statement should specifically address:
  - the policy and controls that address the provision of non-audit services by the external auditor, and the nature and extent of such services rendered during the financial year
  - the tenure of the external audit firm and, in the event of the firm having been involved in a merger or acquisition, including the tenure of the predecessor firm
  - the rotation of the designated external audit partner

- the audit committee's views on the quality of the external audit, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulators. An explanation of how the committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment of the external auditor; the length of tenure of the current audit firm; the current audit partner name, and for how long the partner has held the role
- if the external auditor provides non-audit services, the committee's policy for approval of non-audit services; how auditor objectivity and independence is safeguarded; the audit fees for the statutory audit of the company's consolidated financial statements paid to the auditor and its network firms for audit related services and other non-audit services, including the ratio of audit to non-audit work; and for each significant engagement, or category of engagements, explain what the services are and why the audit committee concluded that it was in the interests of the company to purchase them from the external auditor
- significant changes in the management of the organisation during the external audit firm's tenure which may mitigate the risk of familiarity between the external auditor and management
- significant matters that the audit committee has considered in relation to the annual financial statements, and how these were addressed by the committee, having regard to matters communicated to it by the auditors. The committee needs to exercise judgement in deciding which of the issues it considered in relation to the financial statements were significant. The audit committee should aim to describe the significant issues in a concise and understandable form while reporting on the specific circumstances of the company. When reporting on the significant issues, the audit committee would not be expected to disclose information which, in its opinion, would be prejudicial to the interests of the company (for example, because it related to impending developments or matters in the course of negotiation)
- the audit committee's views on the effectiveness of the chief audit executive and the arrangements for internal audit. Including an explanation of how the committee has assessed the effectiveness of internal audit and satisfied itself that the quality, experience and expertise of the function is appropriate for the business
- the audit committee's views on the effectiveness of the design and implementation of internal financial controls, and on the nature and extent of any significant weaknesses in the design, implementation or execution

of internal financial controls that resulted in material financial loss, fraud, corruption or error
- the audit committee's views on the effectiveness of the CFO (this is also required in terms of the JSE Listings Requirements) and the finance function
- the arrangements in place for combined assurance and the committee's views on its effectiveness.

For listed companies, the audit committee must report to shareholders in the annual report that it:

- considered, on an annual basis, and satisfied itself of the appropriateness of the expertise and experience of the financial director
- ensured that the company established appropriate financial reporting procedures, and that those procedures are operating
- request from the audit firm relevant information for their assessment of the suitability for appointment of their designated individual partner both when they are appointed for the first time and thereafter annually for every reappointment.

There is no requirement for the full audit committee report to be included in the annual financial statements. Most companies prepare a report on the statutory requirements for inclusion in the annual financial statements, and then prepare a more comprehensive report for inclusion in the integrated annual report.

Non-audit services

The Companies Act requires that the audit committee determine the nature and extent of non-audit services, and that the committee pre-approves any agreement for the provision of non-audit services by the auditor. In order to determine what constitutes "non-audit services" it is necessary to be clear on the services that will be performed by the auditor as part of the audit.

It is proposed that the auditor engages with the audit committee on a regular basis and table for approval the extent of fees to be paid or paid in respect of proposed/requested non-audit services. Any agreement for the provision of non-audit services should include the terms under which the services are provided, the nature of services which can be provided, and the extent of such services, which should be pre-approved by the audit committee.

Appointment of the external auditor

The audit committee is a critical part of the auditor appointment process. In terms of section 94, the audit committee's duties include nominating an auditor for appointment that in their opinion is independent. Where the shareholders appoint an auditor other than the auditor nominated by the audit committee, the audit committee must be satisfied with the independence of the appointed auditor. Accordingly, where the independence of the auditor has not been ratified by a properly constituted audit committee (e.g. less than three members, or not every member of the committee is an independent non-executive director), the auditor's appointment is invalid.

Where a firm is appointed as auditor, the audit committee must also verify the independence of the individual that will be responsible for the audit (the designated auditor). The name of the designated auditor must be included in the Register of Auditors as contemplated in section 85.

Where the independence of the auditor has not been ratified by a properly constituted audit committee there is a risk that if an audit committee is subsequently formed (either at the instance of the company or because the Commission issues a compliance notice in terms of section 84(6) of the Act) and that audit committee is not satisfied with the auditor's independence, the auditor's appointment will accordingly not be ratified and will thus be invalid.

For listed companies, the audit committee must request relevant information from the auditors (including the last inspection findings of the IRBA) in order to assess the suitability for appointment of the audit firm and designated individual partner. The audit committee must also ensure that the proposed individual auditor does not appear on the JSE list of disqualified individual auditors when recommending an auditor for appointment or reappointment at the annual general meeting.

Section 90(6) of the Act provides that a retiring auditor may be automatically reappointed at an AGM without any resolution being passed, unless:

- the retiring auditor is no longer qualified for appointment, no longer willing to accept the appointment, and has so notified the company, or is required to rotate of as auditor as provided for in section 92
- an audit committee appointed by the company in terms of the Act objects to the reappointment, or
- the company has notice of an intended resolution to appoint some other person or people in place of the retiring auditor.

It is advisable that, despite the Act's allowing for the automatic reappointment of the auditor without passing a resolution, the company pass a resolution as the appointment of the auditor is an annual appointment.

Once the shareholders have appointed the external auditor, an engagement letter should be signed between the audit firm and the company. The engagement letter should identify the audit firm and the individual auditor. Even though the Act determines that the audit committee bears exclusive responsibility for the appointment and terms of engagements of the external auditor, there is no statutory requirement for a member of the committee to sign the engagement letter on behalf of the company.

Assessment of the independence of the external auditor

The Companies Act and King IV provide guidance to ensure that the auditor's independence is guaranteed. These rules recognise the critical role of audit committees in financial reporting and their unique position in monitoring auditor independence. The Companies Act makes it clear that the audit committee's main responsibly is to ensure that the auditor is, and remains independent. As such the appointment of the auditor is dependent on the audit committee's confirmation that the auditor is independent of the company.

Cognisance should be taken of the provisions of section 90(2) and (3) of the Companies Act in which requirements for the appointment of the auditor are set out. Both the person responsible for the audit as well as the audit firm are prohibited from providing accounting, book-keeping and related secretarial services on a regular or habitual basis, and may not engage for more than one year in the maintenance of any of the company's financial records or the preparation of any of its financial statements. Where such services were provided at any time in the five years preceding the appointment of the auditor, such auditor or audit firm will be disqualified from appointment. As such, the audit committee needs to request the auditor and management to provide detail with respect to the non-audit services provided by the auditor prior to appointment, and specifically consider whether or not the auditor (or any other member of the audit firm) provided any of the prohibited services (bookkeeping, accounting, related secretarial services, maintenance of financial records or preparation of the financial statements) to the company in the preceding five years.

The Independent Regulatory Board for Auditors (IRBA) introduced mandatory audit firm rotation effective from 1 April 2023. In terms of this regulation the audit firm may not accept the appointment as auditor if that firm has served as the auditor of the company for more than 10 consecutive financial years on or after 1 April 2023. The audit firm will only be eligible for appointment as auditor after a cooling off period of five years.

The Companies Act provides for the regular rotation of auditors. The designated auditor (not the firm) must be rotated every five years. The same individual (designated auditor) may not serve as the auditor or designated auditor of a company for more than five consecutive financial years.

King IV recommends that the audit committee should confirm and oversee the independence of the external auditor, and consider the following:

- the provision of non-audit services by the external auditor, and the nature and extent of such services rendered during the financial year
- the tenure of the external audit firm
- rotation of the designated external audit partner
- any significant changes in the management of the organisation during the external audit firm’s tenure which may mitigate the attendant risk of familiarity between the external auditor and management.

Of course, the audit committee should also consider the quality of the external audit.

Useful tips when considering auditor independence

This is not a comprehensive list, but can be used when dealing with the auditor on various aspects:

- obtain confirmation from the auditor on the audit team's independence in respect of financial interests of both the team members and their immediate family members
- consider independence prior to offering a position to a member of the audit team and communicate this to the audit partner in time
- consider the list of prohibited services and potential disqualification in terms of section 90(2) when requesting services from the auditor
- the audit team should never act in a capacity of management/perform a management function when providing permissible non-audit services to the audit client
- temporary staff placements from the audit team are not in all instances possible
- when requesting certain non-audit services that may be allowed with safeguards, be aware that this will not be a member of the audit team
- partners of an audit client, may not be appointed as a director of the audit client
- directors of the audit client, may not be contracted by the audit firm for any services, therefore if a new director is elected ensure this person is not in contract with the audit client.

Audit committee's statutory duties to ensure the independence of the external auditor

Section 94(7) of the Companies Act
"An audit committee of a company has the following duties:

(a) To nominate, for appointment as auditor of the company under section 90, a registered auditor who, in the opinion of the audit committee, is independent of the company
(b) to determine the fees to be paid to the auditor and the auditor's terms of engagement
(c) 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
(d) to determine, subject to the provisions of this Chapter, 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
(e) to pre-approve any proposed agreement with the auditor for the provision of non-audit services to the company;
(f) to prepare a report, to be included in the annual financial statements for that financial year –
    (i) describing how the audit committee carried out its functions
    (ii) stating whether the audit committee is satisfied that the auditor was independent of the company
    (iii) commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company
(g) to receive and deal appropriately with any concerns or complaints, whether from within or outside the company, or on its own initiative, relating to –
    (i) the accounting practices and internal audit of the company
    (ii) the content or auditing of the company's financial statements
    (iii) the internal financial controls of the company
    (iv) any related matter
(h) to make submissions to the board on any matter concerning the company's accounting policies, financial control, records and reporting
(i) to perform such other oversight functions as may be determined by the board".

Assessment of independence

Section 94(8) of the Companies Act

"In considering whether, for the purposes of this Part, a registered auditor is independent of a company, the audit committee of that company must –

(a) ascertain that the auditor does not receive any direct or indirect remuneration or other benefit from the company, except –

  (i) as auditor; or
  (ii) for rendering other services to the company, to the extent permitted in terms of subsection (7) (d)

(b) consider whether the auditor's independence may have been prejudiced –

  (i) as a result of any previous appointment as auditor; or
  (ii) having regard to the extent of any consultancy, advisory or other work undertaken by the auditor for the company; and

(c) consider compliance with other criteria relating to independence or conflict of interest as prescribed by the Independent Regulatory Board for Auditors established by the Auditing Profession Act, in relation to the company, and if the company is a member of a group of companies, any other company within that group".

Assessment of the finance function

King IV requires the audit committee to satisfy itself of the expertise, resources and experience of the company's finance function. This entails an annual consideration of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the financial function. The results of this assessment should be disclosed in the integrated report.

In addition, the JSE Listings Requirements requires the audit committee to evaluate the suitability of the expertise and experience of the finance director and recommend to the board if any changes are necessary.

In evaluating the finance function, the audit committee may consider the following questions:

- Does management of the finance function demonstrate a commitment to character, integrity and high ethical values through its attitudes and actions?
- Does management of the finance function demonstrate a commitment to competence? Is the level of competence required for particular jobs specified and translated into knowledge and skills?
- Are human resource policies and procedures properly developed and communicated to staff in the finance function regarding expected levels of integrity, ethical behaviour and competence?
- Can the finance function's management philosophy and operating style be considered consistent with a sound control environment?
- Is the organisational structure of the finance function appropriately designed to promote a sound control environment?
- Does the finance function assign authority and responsibility to provide a basis for accountability and control?
- Does management of the finance function properly apply accounting principles in preparation of the financial statements? Is there a process for identifying and responding to the changing information and communication needs?
- Can financial reporting and related application and information systems be considered reliable?
- Is appropriate and necessary information obtained from and provided to management?
- Is there a process for identifying and responding to the changing information and communication needs of management?
- Has a 'whistle-blowing programme' been established, and is management's reaction monitored as it relates to financial reporting?
- Is there a process in terms of which management holds internal meetings to obtain feedback on whether control activities are operating effectively?
- Does management's communication across and outside the entity reflect an attitude toward sound internal control?
- Does management address issues raised by others, specifically external communications, in order to maintain an effective control structure?
- Are self-assessments conducted to promote control awareness and accountability?

Interaction with management

Management has to ensure the audit committee is kept properly informed, and should take the initiative in supplying information rather than waiting to be asked. The audit committee needs to cultivate a transparent and constructive relationship with management, which in turn impacts the quality of financial reporting and the internal controls. Management's willingness to communicate potentially significant issues relating to financial reporting and regulation, matters relating to accounting policies and judgements and the internal controls over financial reporting, are heavily dependent on how open the relationship between management and the audit committee is. Disagreements between management and the audit committee are a potential signal of significant deficiencies in internal control, errors in the financial reporting process and fraud risks.

Oversight of internal financial controls

King IV proposes that the audit committee provides disclosure on the committee's views on the effectiveness of the design and implementation of internal financial controls, and on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or error.

More often than not, the board will delegate to the audit committee the responsibility for the company's internal control systems as well as management of the financial risks. The audit committee should review the company's internal financial controls, and should consider what role it can play in promoting sound risk management and internal control systems, including operational and compliance controls, and review these systems. Management should provide the audit committee with reports on the effectiveness of the systems they have established and the results of any testing carried out by internal or external auditors. It is advisable for the audit committee to consider the level of assurance it is getting on the risk management and internal control systems, including internal financial controls.

Interaction with the internal auditors

An effective relationship between the audit committee and the internal auditors is fundamental to the success of the internal audit function. It has become increasingly important for audit committees to assess whether the internal auditors are monitoring critical controls and identifying and addressing emerging risks. The specific expectations for internal audit functions vary by organisation, but should include, at least, the following elements:

- objectively monitor and report on the health of financial, operational, and compliance controls
- provide insight into the effectiveness of risk management
- offer guidance regarding effective governance
- become a catalyst for positive change in processes and controls
- deliver value to the audit committee, executives and management in the areas of controls, risk management and governance to assist in the audit committee's assessment of the efficacy of programmes and procedures
- coordinate activities and share perspectives with the external auditor.

In support of these objectives, audit committees should take steps to facilitate a mutually beneficial relationship with the internal auditors:

- meet privately with the internal auditors on a regular basis
- encourage open communication between the chief audit executive (CAE) and the audit committee
- take responsibility for the appointment, performance assessment and dismissal of the CAE or outsourced internal audit function
- set clear goals and evaluate the performance of the CAE (these responsibilities should not be delegated solely to the CFO or CEO)
- see that the internal auditors have appropriate stature and respect and are visibly supported by senior management throughout the organisation
- support the CAE, providing guidance if needed and assistance when he or she reports potential management lapses.

Questions for audit committees to consider

- Does internal audit have a clearly articulated strategy that is reviewed periodically and approved by the audit committee?
- Does internal audit have a clear set of performance expectations that are aligned with the success measures of the audit committee, and that are measured and reported to the audit committee?
- Does internal audit have a charter that is periodically reviewed and approved by the audit committee? Does internal audit operate in accordance with its charter?
- Is the internal audit plan aligned to the key risks of the organisation and other assurance activities? Is internal audit's risk assessment process appropriately linked to the company's enterprise risk management activities?
- In delivering the internal audit plan, is internal audit flexible and dynamic in promptly addressing new risks and the needs of the audit committee?
- Does internal audit organise or perform peer reviews or self-assessments of its performance and report the results to the audit committee?
- Is internal audit appropriately funded and staffed?
- Is internal audit staffed with the appropriate mix of professionals to achieve its objectives?
- Is internal audit sufficiently independent of management?
- Is the CAE respected as an adviser to the audit committee and management on emerging risks?
- Is internal audit highly regarded and respected in the organisation?
- Is the level of assurance provided by internal audit and its interaction with other assurance sources clear and appropriate for the audit committee?
- Does internal audit meet regularly with the external auditors to discuss risk assessments, the scope of procedures, or opportunities to achieve greater efficiencies and effectiveness in the company's audit services?
- Are issues identified and reported by internal audit appropriately highlighted to the audit committee, and is the progress toward effective completed management actions tracked and reported?
- Is internal audit timely and proactive in the conduct and reporting of issues and in addressing them with management?
- Are reports and other communications from internal audit to the audit committee of an appropriate standard and do they provide value?

When the internal audit function's direct reporting line is to the audit committee, it allows the internal auditors to remain structurally separate from management and enhances objectivity. This also encourages the free flow of communication on issues and promotes direct feedback from the audit committee on the performance of the CAE. There are several ways the audit committee can oversee the internal audit function. The Institute of Internal Auditors (IIA) provides the following checklist of considerations for audit committees in overseeing the internal auditors.

IIA Ten-point checklist for internal audit oversight

1. The audit committee engages in an open, transparent relationship with the CAE.
2. The audit committee reviews and approves the internal audit charter annually.
3. The audit committee has a clear understanding of the strengths and weaknesses of the organisation's internal control and risk management systems.
4. The approved plan is carried out by competent, objective professionals from internal audit.
5. Internal audit is empowered to be independent by its appropriate reporting relationship.
6. The audit committee addresses with the CAE all issues related to independence and objectivity.
7. Internal audit is quality-oriented and has a robust quality improvement programme.
8. The audit committee regularly communicates with the CAE about performance and improvement opportunities.
9. Internal audit reports are actionable and recommendations are implemented.
10. The audit committee meets periodically with the CAE without management.

Internal audit oversights

The audit committee charter must include oversight of the internal audit function as one of its purposes. The audit committee's regular report to the board of directors should include issues involving the performance of the internal audit function. The audit committee must meet separately with the internal auditors.

The audit committee oversees the accounting and financial reporting processes of the company. Note that oversight of internal audit is often one component in meeting this requirement.

In addition to the suggestions above, the audit committee should review and periodically evaluate the status of the enterprise-wide risk assessment and the audit plans. The audit committee also should periodically evaluate the progress and results of the audit against the original plans and any significant changes made to those plans.

The IIA's Standards for Professional Practice of Internal Auditing mandate that the internal auditors maintain a certain level of independence from the work they audit. This means that an internal auditor should have no personal or professional involvement with the area being audited and should maintain an impartial perspective on all engagements. Internal auditors should have access to records and personnel when necessary, and they should be allowed to employ appropriate investigative techniques without impediment.

Risk assessment and oversight

Risk oversight has taken on increased importance not only for audit committees, but for full boards. Many boards are reconsidering the risk governance structure and which committees have the expertise to oversee particular risks.

Audit committees are generally responsible for financial risks and for overseeing the process for identifying and addressing those risks. The audit committee should discuss the company's risk assessment and risk management policies with management. Although it is the responsibility of senior management to assess and manage the company's risks, the audit committee should focus on areas of major financial risk exposure and discuss the guidelines and policies for addressing these areas. Consequently, risk oversight has been on the agenda of audit committees for a number of years. King IV proposes that the audit committee should have an understanding of the company's process for identifying, managing and reporting on risk. At a minimum, the audit committee should ensure oversight of financial and other risks that may affect the integrity of the company's external reports (e.g. financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting, and risks pertaining to information and technology).

Combined assurance

King IV positions combined assurance as a core component of corporate governance. Combined assurance can be explained as the assessment by the various assurance providers of level of risk mitigation and assurance being provided over risk, control, information and reports.

King IV defines the combined assurance as model the "model [that] incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment; support the integrity of information used for internal decision-making by management, the governing body and its committees, and support the integrity of the company's external reports."

The principles that guide combined assurance have been detailed as follows:

1. Primary responsibility for management of risk and control rests with management
2. Management considers and implements appropriate risk responses (within risk appetite)
3. Continuous monitoring of risk and control by management, supported by Risk Managers
4. Management is responsible for remediation of control deficiencies (corrective action), management of issues, and standards of performance
5. Internal control deficiencies should be reported to Responsible parties, Senior Management and the Board
6. Common definition of the control enviroment and documentation of risks and controls should be in place.
7. Common application of the approved risk taxonomy (defining and catagorising risk and appropriate risk responses
8. Risk-based response to providing assurance over risks and controls
9. Assurance over Internal Financial Controls (IFCs), information and reporting are incorporated
10. Continual Co-ordination and engagement between assurance providers, while understanding the varies mandates
11. Annual written assessment by CAM Owner to support the effectiveness asessment of the audit committee

The combined assurance model and process should be supported by a formalised policy and framework. The board and audit committee should approve the policy to ensure that the necessary oversight of and alignment with the combined assurance process is in place.

King IV proposes that the board assumes responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions, and should delegate this function to the audit committee. In order to set this direction, management should present the policy and framework to the board and audit committee for approval.

The formalisation of the policy and framework enables key design principles to be refined for a particular company. These design principles include:

- Defining the levels of assurance
- Defining of the assurance providers
- Defining the assessment criteria used to assess the quality of assurance
- Articulating the mandate of the combined assurance forum
- Defining the evidence required to support the assurance provider.

The combined assurance process is supported by policy and models that can be implemented to provide a view on the effectiveness of the implementation of combined assurance.

Fraud and internal control over financial reporting

In conjunction with risk oversight, the audit committee should determine that the company has programmes and policies in place to prevent and identify fraud. It should work with management to oversee the establishment of appropriate controls and antifraud programmes and to take the necessary steps when fraud is detected. The audit committee should also be satisfied that the organisation has established a complaint hotline. See the *Complaint Hotline Procedures* section later in the document for more information.

Audit committee members should be aware of three main areas of fraud:

- financial statement fraud, which includes intentional misstatements in or omissions from financial statements
- asset misappropriation, which may include forgery, theft of money, inventory theft, payroll fraud, or theft of services
- corruption, which may include schemes such as kickbacks, shell companies, bribes to influence decision-makers, or manipulation of contracts.

Leading practices for the oversight of financial reporting and internal controls include the following:

- understand key controls and reporting risk areas as assessed by financial management, the internal auditors, and the external auditor
- emphasise oversight of corporate taxes, an area where high-risk decisions are made
- leverage the value of internal controls beyond compliance
- consider levels of authority and responsibility in key areas, including pricing and contracts, acceptance of risk, commitments, and expenditures
- understand complex accounting and reporting areas and how management addresses them
- understand significant judgements and estimates used by management and their impact on the financial statements, such as fair-value accounting and related assumptions
- anticipate and understand how pending financial reporting and regulatory developments may affect the company, particularly its talent needs.

Although the audit committee should be concerned with all three types of fraud, financial statement fraud should be their primary focus. Although it occurs least frequently, it is often the most costly.

One way the audit committee can help in overseeing the prevention and detection of financial statement fraud is by monitoring management's assessment of internal control over financial reporting. To oversee internal control over financial reporting successfully, the audit committee must be familiar with the processes and controls that management has put in place and understand whether they were designed effectively. The audit committee should work with management, the internal auditors, and the external auditor to gain the knowledge needed to provide appropriate oversight.

The audit committee should also have an awareness of the following Acts:

- Prevention and Combating of Corrupt Activities Act
- Financial Intelligence Centre Act
- Prevention of Organised Crime Act
- Protected Disclosures Act
- Electronic Communications and Transactions Act
- Promotion of Administrative Justice Act

The above list highlights the Acts which are relevant in South Africa. However, where the entity has operations in other countries, the laws and regulations of those countries should not be forgotten, for example the Foreign Corrupt Practices Act (United States).

The committee should understand the company's responsibilities regarding these statutes as well as the policies and practices in place related to compliance with the statutes. The audit committee should also ask management what the company's plans are should a violation occur, and it should be made aware of any actual violations, including management's response.

Complaint hotline procedures

Companies use hotlines to report a range of potential compliance issues, including violations of the internal policies of the business. A thorough, independent and objective process should be established by management and the audit committee for investigating complaints. Companies use various procedures, but the most common method of receiving tips from inside and outside the organisation is through a telephone hotline administered by an internal department or a third party. Telephone hotlines have emerged as a preferred mechanism because they are interactive, allowing a skilled interviewer to elicit details.

Section 94 of the Companies Act requires the audit committee 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 audit of the company's financial statements
- the internal financial controls of the company
- any related matter.

The audit committee should work with management to determine that more than one person in the company is aware of questions or complaints received from third-party vendors, in e-mail, or through other submission vehicles. Responsibility for investigating questions or concerns and reporting back to the audit committee often falls on individuals in the ethics and compliance, internal audit, legal, or risk management departments. Complaints should be categorised and analysed by root cause, and recommendations should be made to the audit committee on how to reduce the risk of similar complaints in the future.

The audit committee also should be provided with an ongoing analysis of the progress of complaint resolution. Reports should be provided to the audit committee regularly in accordance with standing instructions. Some complaints may warrant immediate communication to the audit committee, such as those involving senior management and significant amounts. The audit committee should establish a schedule for reporting to the board of directors.

It is recommended that complaint hotline systems feature:

- operation by an independent third party
- staffing by trained interviewers rather than fully automated systems
- a dedicated phone number that is available at all times, along with other reporting means such as the company's website, e-mail, and regular mail
- multilingual systems and operators.

In addition:

- complainants should be allowed to call back at a later time, and they should be given the option to file complaints anonymously
- complainants must be protected from any retaliation as a result of reporting
- protocols should be in place to allow complaints to be channelled to the appropriate individual, and complaints involving senior management should go directly to the audit committee
- complaints must be handled in a confidential manner and resolved as quickly as possible
- complaint procedures should be well known to all employees, vendors and other interested parties.

A hotline monitored by an independent third party is preferred. However, if the hotline is administered internally, operators should have specific training on where to direct questions or complaints, including those related to human resources. Whatever the method, audit committee members should work with management to make employees, investors, and others aware of the option of confidential disclosure. Employees can be informed in the code of ethics, the employee handbook, human resources orientation, and ethics training. Instructions for submitting questions or complaints can be posted in company facilities and on intranet sites. The company website is a natural vehicle for communicating the procedures to individuals outside the organisation. It is good practice for companies to adopt codes of ethics and disclose them on their websites. Information on the code of ethics and the complaint hotline often is linked from the home page under a section called “Ethics” or an equivalent.

Telephone operators working in customer service and investor relations should be prepared to answer questions on how to submit concerns and complaints regarding financial reporting.

It is important for the audit committee to work with management and internal audit to understand:

- opportunities to enhance internal whistleblowing systems
- the potential advantages of implementing timely internal whistleblower cash awards to sustain and encourage internal whistleblowing
- the potential value of transaction monitoring tools to help promptly identify potential securities fraud issues such as bribery or financial statement fraud.

SECTION 4

Interaction with the external auditor

SECTION 4

Interaction with the external auditor

The audit committee plays a critical role in the appointment of the external auditor. In terms of section 94, the audit committee's duties include nominating an auditor for appointment that in their opinion is independent. Where the shareholders appoint an auditor other than the auditor nominated by the audit committee, the audit committee must be satisfied with the independence of the appointed auditor. Accordingly, where the independence of the auditor has not been ratified by a properly constituted audit committee, the auditor's appointment may be invalid.

Audit committees of companies are responsible for the appointment, compensation, and oversight of the external auditor, including the resolution of any disagreements with management. It is paramount that the audit committee, management, the internal auditors, and the external auditor work together in a spirit of mutual respect and cooperation. The active involvement of a high-quality, transparent audit committee will enhance the perception of the audit quality and of the quality of the financial statements.

Leading practices for the audit committee's relationship with the external auditor include:

- exercise ownership of the relationship with the external auditor
- discuss with the auditor any potential or contentious issues in terms of independence/ethical requirements
- get to know the lead partners and meet periodically with specialists (e.g. tax, IT, fair value)
- establish expectations regarding the nature and method of communication, as well as the exchange of insights
- engage in consistent dialogue outside of the regularly scheduled meetings
- set an annual agenda with the external auditor
- focus on independence, including a process for the preapproval of services beyond the audit
- provide formal evaluations and regular feedback.

Private sessions with the external auditor are a way to maintain open communication and identify concerns. The audit committee and the external auditor typically meet at least quarterly and engage in thorough discussion.

The audit committee should have a process for overseeing management's resolution of significant issues raised by the external auditor.

Communication between the audit committee and the external auditor

The external auditor is required by the International Standards on Auditing to communicate the following to the audit committee:

- the auditor's responsibilities in relation to the audit. This may include an understanding of the terms of the audit engagement, normally outlined annually in an engagement letter, including the objective of the audit and the responsibilities of the auditor and management
- the form, timing and expected general content of communications with the audit committee
- an overview of the planned scope and timing of the audit. This may include:
    - the nature and extent of specialised skills necessary to perform planned audit procedures
    - the extent to which the external auditor plans to rely on work performed

  by the company's internal audit function or others in the audit of the financial statements and internal control over financial reporting
  - the names, locations, and anticipated responsibilities of any firm or personnel performing audit work in the current period but not employed by the auditor
  - the auditor's rationale for serving as principal auditor if significant parts of the work are performed by others, and
  - any significant changes to the original strategy or significant risks and the reasons for such changes
- fraud or information that indicates that fraud may exist or other matters relating to fraud relevant to the responsibilities of the audit committee
- suspected or actual non-compliance with laws and regulations
- significant findings from the audit and the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Matters to be discussed include:

  - management's initial selection of, or changes in, significant accounting policies or the application of such policies in the current period, and
  - the effect on financial statements or disclosures of significant accounting policies in controversial areas or areas for which there is a lack of authoritative guidance or consensus, or diversity in practice
  - all critical accounting policies and practices to be used, including (i) the reasons certain policies and practices are considered critical, and (ii) how current and anticipated events might affect the determination of whether certain policies and practices are considered critical
  - when applicable, an explanation of why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity
  - critical accounting estimates, including (i) a description of the process management used to develop critical accounting estimates, (ii) management's significant assumptions used in critical accounting estimates that have a high degree of subjectivity, (iii) any significant changes management made to the processes used to develop critical accounting estimates or significant assumptions, a description of management's reasons for the changes, and the effects of the changes on the financial statements

    - significant unusual transactions, including (i) significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature, and (ii) the policies and practices management used to account for significant unusual transactions

- significant matters arising during the audit in connection with related parties
- material misstatements of fact contained in other information. The auditor may also communicate their responsibility, including any related procedures performed and the results of such procedures when other information is presented in documents containing audited financial statements
- events or conditions which cast significant doubt on the entity's ability to continue as a going concern. The communication may include the auditor's conclusion about management's plans to alleviate substantial doubt about the company's ability to continue as a going concern and the effects, if any, on the financial statements and the auditor's report, if substantial doubt remains about the company's ability to continue as a going concern
- uncorrected misstatements and the effect that they may have on the opinion in the auditor's report and the effect of uncorrected misstatements related to prior periods, including those were there was another predecessor auditor, on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole
- other matters communicated or discussed with management
- written representations the auditor is requesting
- possible modifications to the auditor's report i.e. a modified opinion or an emphasis of matter or other matter paragraph, including the reasons for modifying the opinion and the proposed wording to be used in the auditor's report
- any significant difficulties encountered during the audit, including, but not limited to, (i) significant delays by management, the unavailability of company personnel, or an unwillingness by management to provide information needed for the auditor to perform his or her audit procedures, (ii) an unreasonably brief time within which to complete the audit, (iii) unexpected extensive effort required by the auditor to obtain sufficient appropriate audit evidence, (iv) unreasonable management restrictions encountered by the auditor on the

conduct of the audit, and (v) management's unwillingness to make or extend its assessment of the company's ability to continue as a going concern when requested by the auditor

- significant deficiencies in internal control identified during the audit, including a description of the deficiencies and an explanation of their potential effects. This would also include significant deficiencies identified by component auditors
- group audit matters i.e. scope of the audit, involvement in the component auditor’s work, limitations on the scope of the work, fraud related matters
- failures by group management to inform component management of matters significant to the financial statements of the component
- matters relating to subsequent events i.e. facts discovered after the date of the auditor’s report but before the financial statements are issued that would have impacted the auditor’s report or are discovered after the financial statements have been issued
- other matters arising from the audit that are significant to the oversight of the company's financial reporting process, including complaints or concerns regarding accounting or auditing matters that have come to the auditor's attention during the audit and the results of the auditor's procedures regarding such matters
- certain matters relating to the auditor’s independence.

In addition, the external auditor generally communicates the following to the audit committee:

- key audit matters
- whether the audit committee is aware of matters relevant to the audit, including, but not limited to, violations of laws or regulations
- matters that are difficult or contentious for which the auditor consulted outside the engagement team and that the auditor reasonably determined are relevant to the audit committee's oversight of the financial reporting process
- management’s consultation with other accountants about significant auditing or accounting matters when the auditor has identified a concern regarding such matters
- any disagreements with management about matters, whether or not satisfactorily resolved, that individually or in the aggregate could be significant to the company's financial statements or the auditor's report.

Appointment of the external auditor

All companies that are subject to a mandatory audit must appoint a registered (in terms of the Auditing Professions Act), independent auditor at every annual general meeting. This requirement will also apply to those companies that voluntarily elected to comply, and provided for such requirement in their Memorandum of Incorporation.

The audit committee must nominate an auditor, which it regards as independent from the company (see above), to the shareholders for appointment. Where the shareholders elect to appoint a different auditor, the appointment will only be valid if the audit committee has verified that the auditor is independent.

Where a firm is appointed as auditor, the audit committee must also verify the independence of the individual that will be responsible for the audit (the designated auditor). The name of the designated auditor must be included in the register as contemplated in section 85.

Audit committee to communicate with the external auditor

- Meet to review and discuss with the external auditor the company's annual audited financial statements and interim financial statements, including disclosures in management's discussion and analysis
- Periodically, meet separately with the external auditor, management, and the internal auditors
- Obtain a formal written communication from the external auditor regarding independence and other matters annually
- Review with the external auditor any audit problems or difficulties and management's response
- Set clear hiring policies for employees or former employees of the company's external auditor.

Auditor independence

Independence is governed primarily by the requirements of section 290 of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (the IFAC Code). Furthermore, auditors are required to comply with the Independent Regulatory Board for Auditors (IRBA) Code of Professional Conduct for Registered Auditors, which is similar to the IFAC Code.

The independence rules are different for entities governed by the Securities Exchange Commission (SEC). For such entities the SEC rules should be studied on what is applicable.

For the purpose of this section, we will focus on the independence principles per the IFAC code.

The independence rules address the following issues:

- relationships between the auditor and its audit client arising from:
    - personal financial interests
    - family and personal relationships
    - employment relationships
    - business relationships with audit clients and consultants
- non-assurance services provided by auditors
- contingent fees and commissions
- long association of senior personnel with the audit client, which incorporates partner rotation
- the audit committee's administration of the audit engagement
- compensation of audit partners

Financial interests. Holding a financial interest in an audit client may create a threat to independence depending on the (a) role of the person, (b) whether the holding is direct or indirect and (c) the materiality of the financial interest. Examples of such threats can include investment in the audit client's debt or equity securities, loans, collective investment funds and other financial interest products, or financial interests held by trusts or estates of which certain of its people (and or their immediate family members) are trustees or executors. (In some audit firms the rules regarding investments in audit clients can be more restrictive than the IFAC rules and the audit committee should enquire from the auditor if they have more restrictive policies on financial interest).

Family and personal relationships. Threats to independence occur when family and personal relationships exist between the audit team, and a director or officer or certain employees (depending on their role) of the audit client. Depending on the closeness of the relationship safeguards could reduce the threat to an acceptable level otherwise the individual who has such a relationship shall not be a member of the audit team.

Employment relationships. The rule states that independence is impaired if a current partner, principal, shareholder, or professional employee of the external auditor has an employment relationship with, or serves as a member of the board of directors or similar management or governing body of, the audit client.

Independence can be impaired if former partners or members of the audit engagement team are employed as directors or officers or employees in positions to exert significant influence over the preparation of the audit client's accounting records of the financial statements on which the audit firm express an opinion on. Such individuals should not be employed by the audit client unless certain criteria are met such as the position offered to the person, the former role of the person as the audit client, continuous involvement at the audit client and the time that has passed from last audit prior to the position being filled.

Partners of the audit firm should not act temporarily as a director, officer or employee of an audit client. Seconding of professional staff to an audit client for a short period of time may in certain instances be provided. The temporary secondment of staff is not allowed for audit clients that are SEC Registrants or affiliates of SEC Registrants.

Business relationships. The rule prohibits an external auditor from having a direct or material indirect business relationship with an audit client, or with persons associated with the audit client in a decision-making capacity, such as an audit client's officers, directors, or substantial stockholders. This prohibition does not preclude the external auditor from providing permissible services to the audit client or purchasing goods or services from the audit client as a consumer in the ordinary course of business.

There are rules for different types of business relationships between the audit firm and the audit client or its personnel that should be considered. For example:

- Vendor Business Relationships
- Marketplace Business Relationships (including, Alliances, Teaming, prime/subcontracting, reseller, investment, commission or referral fee, sponsorships, co-publishing and speaking engagements.

Non-assurance services provided by auditors. Providing non-audit services to the audit client may create threats to independence. The rules permit an auditor to provide certain non-audit services and in other cases it may be possible to eliminate or reduce the threats created by the application of safeguards. Non-audit services are required to be preapproved by the audit committee.

The auditor should never take up a management responsibility when providing any permissible non-audit services to the audit client.
The independence rules include certain prohibitions on the following list of services depending if the non-audit services is being provided to the audit client, or any of its subsidiaries, affiliates or divisions. Some of the non-audit services are completely prohibited for public interest entities.

List of non-audit services with specific independence rules to be considered include:

- tax services as follows:
    - tax return preparation services
    - tax calculations for purpose of preparing the accounting entries
    - tax planning and other tax advisory services
    - assistance in resolution of tax disputes
- design and implementation of financial information systems
- appraisal or valuation services, fairness opinions, or contribution-in-kind reports
- actuarial services
- internal audit services
- human resources (including recruiting senior management)
- corporate finance services (including broker-dealer, investment advisory, or investment banking services)
- legal services
- litigation support and expert services
- bookkeeping
- temporary staff assignments

Cognisance should be taken of the provisions of section 90(2) and (3) of the Companies Act in which requirements for the appointment of the auditor are set out. Both the person responsible for the audit as well as the audit firm are prohibited from providing accounting, book-keeping and related secretarial services on a regular or habitual basis, and may not engage for more than one year in the maintenance of any of the company's financial records or the preparation of any of its financial statements. Where such services were provided at any time in the five years preceding the appointment of the auditor, such auditor or audit firm will be disqualified from appointment. As such, the audit committee needs to request the auditor and management to provide detail with respect to the non-audit services provided by the auditor prior to appointment, and specifically consider whether or not the auditor (or any other member of the audit firm) provided any of the prohibited services (bookkeeping, accounting, related secretarial services, maintenance of financial records or preparation of the financial statements) to the company in the preceding five years.

Auditor rotation

The Companies Act provides for the regular rotation of auditors. The designated auditor (not the firm) must be rotated every five years. The same individual (designated auditor) may not serve as the auditor or designated auditor of a company for more than five consecutive financial years.

In terms of the provisions of the Act, an audit partner will be disqualified from serving as designated auditor as soon as he or she had served as designated auditor for more than five years.

Where an individual has served as the auditor or designated auditor of a company for two or more consecutive financial years and then ceases to be the auditor or designated auditor, the individual may not be appointed again as the auditor or designated auditor of that company until after the expiry of at least two further financial years ("cooling-off period").

The IRBA introduced mandatory audit firm rotation effective from 1 April 2023. In terms of this regulation the audit firm may not accept the appointment as auditor if that firm has served as the auditor of that company for more than 10 consecutive financial years on or after 1 April 2023. The audit firm will only be eligible for appointment as auditor after a cooling-off period of five years.

Quality of the audit

The audit committee can positively influence the quality of the audit through actively engaging with the auditor and questioning the auditor where there is concern that the audit quality is inappropriate. The motivation of the audit committee should not be on minimising cost since this may impact audit quality, but rather focusing on ensuring that sufficient, appropriate resources, including experts, have been involved on the audit and risks adequately addressed. The audit committee should consider evaluating audit quality and defining criteria for measuring the quality of the audit.

Evaluation of the external auditor

Because there is no formal guidance regarding the evaluation of the external auditor and because needs and preferences vary by company and audit committee, practices for evaluating the external auditor range from highly formalised processes with extensive documentation to more informal processes. Factors the audit committee may consider in developing an evaluation process include:

- ***Frequency and timing of the evaluation.*** Many audit committees perform the evaluation annually, immediately following the fiscal-year financial reporting.
- ***Parties involved in the assessment.*** Although Section 94 of the Companies Act does not require the audit committee to evaluate the external auditor, many conduct some form of evaluation to make decisions on auditor appointment and retention. As noted previously, Section 94 of the Act established the audit committee's responsibility for the appointment, compensation, and oversight of the external auditor. However, it may not be practical for the audit committee to oversee and coordinate the entire evaluation. In many instances, the audit committee delegates the coordination responsibility to the internal audit department or another group in the company. The party responsible for coordinating the evaluation should obtain information not only from the audit committee, but from senior financial management and the internal auditors. Depending on the size and structure of the company, it may be appropriate to obtain input from the management of significant operating locations or business units.
- ***Form and nature of the assessment.*** Some external auditors have assessment questionnaires for evaluating client service. Audit committees can use these questionnaires, tailor them to fit their needs, or create their own. The assessment can be done by having the relevant parties complete the questionnaire in writing or by holding interviews. They may also have a discussion about the experience the audit committee and others at the company have had in working with the external auditors.

- ***Assessment criteria.*** The criteria for evaluating the external auditor vary. Common criteria specific to the engagement team include technical competence, industry knowledge, frequency and quality of communication, cohesiveness as a team, and the level of support provided to the audit committee in fulfilling its responsibilities. Audit committees may consider information about the characteristics of the audit firm itself, such as size, financial strength and stability, presence in key markets, approach to professional development, technological capabilities, nature of the audit approach, quality of thought leadership, and eminence in the marketplace.

SECTION 5

Education and evaluation

SECTION 5

Education and evaluation

Board education

With the enhanced focus on the responsibilities of boards and audit committees, continuing education for directors is an area of increasing importance. There are many options for instance, public forums on corporate governance are offered by many professional services firms, universities, and not-for-profit organisations. Benefits include the opportunity to meet with peers and share experiences, and these programmes can be invaluable for gaining knowledge from experts on trends in corporate governance. These forums often feature speakers who would not be available otherwise. However, boards should be careful not to rely completely on public programmes designed for a broad audience, because they may not address the dynamics of a specific company and its industry.

An increasingly popular option is a customised programme of continuing education focusing on topics such as roles and responsibilities, risk oversight, industry expertise, and financial literacy. Customised courses can address subjects relevant to the company's needs and incorporate company-specific policies, processes, and objectives.

When designing a programme of continuing education, the board should identify risks and complex issues facing the organisation. Directors can then evaluate their knowledge in these areas. This self-assessment can help the board gain a better picture of the issues it should include in the programme. Depending on the organisation's size and complexity, the board may want to enlist the internal auditors or outside consultants in the self-assessment process.

Leading Practices

- Provide orientation of new members with executives and external auditors
- Consider offering continuing education programmes in specialised or regulated industries, industry trends, reporting, operations, and related topics as well as particular issues relevant to the company and its business
- Offer one-on-one and committee-level education

For the audit committee, the focus is more specific, centred on financial reporting and accounting issues such as revenue recognition, pensions and other post-employment benefits, financial instruments, critical accounting policies, and internal controls.

Once a curriculum is set, the board, the audit committee, and management should assess the resources available to create and deliver the programme. The programme should be developed using a mix of individuals—some with company knowledge and others with an external perspective.

In addition to continuing education, the company should consider orientation programmes for new directors and audit committee members. Materials should include information on the company's history and operations, corporate governance, industry trends, accounting policies and practices, company policies and the code of ethics, and major business and financial risks.

Audit committees also benefit from periodically inviting subject-matter specialists to participate in audit committee meetings to enhance the committee's knowledge and effectiveness. For example, specialists in international tax, governance, or a particular industry could provide valuable insight in addressing risks or new requirements. External auditors or outside consultants can assist in identifying appropriate specialists.

Audit committee performance evaluation

King IV requires the board to perform regular performance evaluations, and it recommends that this requirement be included in the audit committee's charter. The Companies Act does not require audit committees to assess their performance, but the legislation itself may be the strongest argument for a robust evaluation process.

Performance assessment also provides information that the audit committee can use to improve processes. This is important because the external auditor must consider the effectiveness of the audit committee's oversight of financial reporting when evaluating the control environment. It is proposed that the following factors should be included in the consideration of the audit committee's effectiveness:

- independence of the audit committee members from management
- clarity with which the audit committee's responsibilities are articulated and the degree to which they are understood by management and the audit committee
- interaction of the audit committee and the external auditor, the internal auditors, and senior financial executives
- whether the audit committee raises the right questions with management and the external auditor, including questions that indicate its understanding of critical accounting policies and judgements
- whether the audit committee has been responsive to issues raised by the external auditor.

Because there are no specific guidelines for assessing an audit committee's performance, members and directors have the benefit and the burden of collaborating on an appropriate process. When advisable, this should be done in consultation with legal counsel.

There are several considerations in shaping the assessment process. First, there are various parties that may lead the assessment: the audit committee; the entire board or its nominating/governance committee; or the internal auditors. Some audit committees have found it useful to engage an objective third party to assist with the evaluation process. A combination of these may prove optimal. For example, a committee may choose to engage an adviser every two or three years, and facilitate the process internally in the other years.

The format of the evaluation is another consideration. In the case of a self-assessment, audit committee members may complete a questionnaire collectively or individually. If the internal auditors, the board, or management conducts the assessment, the format may consist of evaluation forms, interviews, or both. The party leading the evaluation may consider soliciting information from individuals who have significant interaction with the audit committee. The committee may want to consider changing the process periodically to keep it fresh.

Documentation is another significant concern, and the advice of corporate counsel is important in this matter. Regardless of the level of documentation in the evaluation process, the audit committee should identify and address opportunities for improvement.

Developing and executing a plan for improvement is the ultimate objective of the assessment. A performance evaluation may highlight the need to examine issues such as the audit committee's composition and qualifications, information related to key financial reporting areas, members' understanding of complex accounting and financial reporting issues, and meeting agendas.

A well-crafted performance assessment process can provide a number of benefits to the audit committee, including:

- prioritising the audit committee agendas and meeting structure to focus on the most critical issues
- shifting compliance oversight into the time between live meetings
- considering the committee's composition in the context of current and future financial reporting challenges
- revisiting the timing, level of detail, and quality of materials provided by management
- identifying topics for continuing education.

Tools and resources. See *Appendix C* for a sample audit committee performance evaluation.

Appendices

APPENDIX A

Sample audit committee charter

Sample audit committee charter
This sample audit committee charter is based on a review of selected company charters, as well as the requirements of the Companies Act and the King IV Report on Corporate Governance for South Africa 20169 (King IV). Deloitte does not accept any responsibility for any errors this publication may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies on it. The information presented can and will change; we are under no obligation to update such information. Deloitte makes no representations as to the sufficiency of these tools for your purposes, and, by providing them, we are not rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. These tools should not be viewed as a substitute for such professional advice or services, nor should they be used as a basis for any decision that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. Deloitte does not assume any obligations as a result of your access to or use of these tools.

This template is designed for SA public companies; exceptions to the requirements noted below may apply for certain issuers, including investment companies, small-business issuers, and foreign private issuers. Many of the items presented here are not applicable to voluntary filers. All companies should consult with legal counsel regarding the applicability and implementation of the various requirements identified.

Charter of the audit committee of the board of directors

1 Purpose

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 the statutory duties in terms of section 94(7) of the Companies Act, 2008 and a committee of the board in all other duties assigned to it by the board.

1.2. Except with respect to the appointment, fees and terms of engagement of the external auditor, the decisions of the committee do not reduce the individual and collective responsibilities of board members in regard to their fiduciary duties and responsibilities. Members must ensure that they meet the standards of director's conduct as provided for in section 76 of the Companies Act to act in good faith and for a proper purpose, in the best interest of the company, and with the necessary care, skill and diligence.

1.3. This charter is subject to the provisions of the Companies Act and the company's Memorandum of Incorporation, as well as and any other applicable law or regulatory provision.

1.4. 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.

1.5. The audit committee is appointed by the shareholders of the company for the primary purpose of assisting the board in:

- 1.5.1. Ensuring the continued independence of the external auditor
- 1.5.2. Overseeing the external audit process
- 1.5.3. Applying the combined assurance model to ensure a coordinated approach to all assurance activities
- 1.5.4. Reviewing the expertise, resources and experience of the finance function
- 1.5.5. Considering the appropriateness of the expertise and experience of the financial director
- 1.5.6. Overseeing the internal audit function
- 1.5.7. Oversight of internal controls and financial reporting
- 1.5.8. Financial risk assessment and oversight

1.6. Consistent with these functions, the audit committee should encourage continuous improvement of, and should foster adherence to, the company's policies, procedures, and practices at all levels. The audit committee should also provide for open communication among the external auditor, financial and senior management, the internal audit function, and the board of directors.

2 Membership

2.1 The committee shall be appointed annually by the shareholders at the annual general meeting and shall comprise at least three members.

2.2 The board, through the nominations committee, shall identify and nominate suitably skilled and experienced directors for appointment by the shareholders.

2.3 The board shall fill a vacancy on the committee within 40 business days, to be ratified by shareholders at the next annual general meeting.

2.4 The audit committee must consist of at least three members. Each member of the committee must be a director of the company and not:

- 2.4.1 be involved in the day to day management of the company for the past financial year
- 2.4.2 be a full-time employee of the company for the past 3 financial years
- 2.4.3 be 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
- 2.4.4 be related to anybody who falls within the above criteria.

2.5 All members of the committee shall have general financial knowledge, at least one of whom shall have recent and relevant financial experience. Collectively, the committee should have an understanding of all matters that are integral to the company's integrated report.

2.6 The board shall appoint the chairman of the committee. In the absence of the chairman of the committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2.7 Only members of the committee shall have the right to vote. However, other individuals such as the Chairman of the board, the Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit and other representatives from the finance department may be invited to attend for all or part of any meeting as and when considered appropriate by the committee.

2.8 The external auditors shall be invited to attend meetings of the committee on a regular basis.

3 Secretary

The company secretary of the company, or its nominee, shall act as the secretary of the committee.

4 Quorum

The quorum necessary for the transaction of business shall be constituted by a majority of the members of the committee. 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.

5 Frequency of Meetings

The committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and additionally as the chairman of the committee considers necessary. The external or internal auditors may request a meeting, if they consider one is necessary, as may any committee member.

6 Notice of Meetings and Agenda

6.1 Meetings of the committee shall be convened by the secretary of the committee at the request of the chairman of the committee.

6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the committee, and any other person required to attend, no later than one week prior to the meeting. Supporting papers shall be sent to committee members, and to other attendees as appropriate, at the same time.

6.3 The chairman will approve the agenda for committee meetings and any member may suggest items for consideration.

7 Minutes of Meetings

7.1 The secretary shall minute the proceedings and resolutions of all meetings of the committee, including the names of those present and in attendance.

7.2 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. If any conflict of interest exists, the director subject to the conflict shall not participate or vote on the issue giving rise to the conflict.

7.3 Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the board, unless a conflict of interest exists, and to the external auditors and the CAE.

7.4 The minutes of the committee shall be formally approved at its next scheduled meeting.

8 Annual General Meeting

8.1 Members of the committee will be appointed by the shareholders at the Annual General Meeting.

8.2 The chairman of the committee shall attend the Annual General Meetings of the company and be prepared to respond to any shareholder questions on the committee’s activities.

9 Duties

9.1 Independent (External) Audit

The committee shall:

9.1.1 consider and make recommendations to the board, to be put to shareholders for approval at the Annual General Meetings of the company, in relation to the appointment, re-appointment and removal of the company's external auditors. The committee shall oversee the selection process for new auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required;

9.1.2 ensure that the appointment of the auditor complies with the Companies Act, the Auditing Profession Act and other relevant legislation;

9.1.3 oversee the relationship with the external auditors including (but not limited to):

- 9.1.3.1 determining their remuneration, whether fees for audit or non-audit services;
- 9.1.3.2 approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 9.1.3.3 assessing their independence and objectivity annually taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services, length of audit firm tenure and rotation of the designated auditor;
- 9.1.3.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditors and the company (other than in the ordinary course of business);
- 9.1.3.5 agreeing with the board a policy on the employment of former employees of the company's auditors, then monitoring the implementation of this policy;
- 9.1.3.6 monitoring the auditors' compliance with relevant ethical and professional guidance on the rotation of audit partners,

the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;

9.1.3.7 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures;

9.1.3.8 considering the risk of the withdrawal of the company's auditors from the market; and

9.1.3.9 at least annually, obtaining and reviewing a report by the external auditor describing:

9.1.3.9.1 the external auditor's internal quality-control procedures;

9.1.3.9.2 any material issues raised by the most recent internal quality-control review or peer review, or by any inquiry or investigation conducted by governmental or professional authorities during the preceding five years with respect to independent audits carried out by the external auditor, and any steps taken to deal with such issues; and

9.1.3.9.3 all relationships between the external auditor and the company

9.1.4 meet regularly with the external auditors, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditors at least once a year, without management being present, to discuss their remit and any issues arising from the audit;

9.1.5 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

9.1.6 review the findings of the audit with the external auditors. This shall include but not be limited to, the following:

9.1.6.1 a discussion of the significant audit issues which arose during the audit;

9.1.6.2 a discussion and review of any problems or difficulties with management's response to audit issues, and oversee any disagreements between management and the auditors if they arise;

9.1.6.3 any accounting and audit judgements; and

9.1.6.4 levels of errors identified during the audit.

9.1.7 review the effectiveness of the audit process annually

9.1.8 review any representation letter(s) requested by the external auditors before they are signed by management

9.1.9 review the management letter and management's response to the auditors' findings and recommendations

9.1.10 distinguish between audit and non-audit services, and develop and implement a policy on the supply of non-audit services by the external auditors, taking into account any relevant ethical guidance on the matter

9.1.11 pre-approve the contracts for non-audit services to be rendered by the external auditor and consider whether the auditor's provision of non-audit services is compatible with the auditor's independence

9.1.12 recommend to the board to engage an external assurance provider to provide assurance over material elements (such elements should be determined by the relevant committee responsible for overseeing the sustainability reporting) of the sustainability part of the integrated report. The audit committee should evaluate the independence and credentials of this external assurance provider.

9.2 Financial Reporting

The committee shall:

9.2.1 monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain

9.2.2 review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature, provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the Listing Requirements of the Johannesburg Stock Exchange

9.2.3 ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular:

9.2.3.1 ensure that the combined assurance received is appropriate to address all the significant risks facing the company

9.2.3.2 support the integrity of information used for internal decision-making by management, the governing body and its committees, and; support the integrity of the organisation's external reports

9.2.3.3 monitor the relationship between the external assurance providers and the company

9.2.4 understand the scope of the internal and external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management responses

9.2.5 receive and review any disclosure from the company's CEO or CFO made in connection with the certification of the company's quarterly and annual reports of:

- 9.2.5.1 significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarise, and report financial data
- 9.2.5.2 any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls

9.2.6 review major issues regarding accounting principles and financial statement presentations, including any significant changes in the company's selection or application of accounting principles; major issues as to the adequacy of the company's internal controls; and any special audit steps adopted in light of material control deficiencies;

9.2.7 review analyses prepared by management and/or the external auditor setting forth significant financial reporting issues and judgements made in connection with the preparation of the financial statements;

9.2.8 review the effect of regulatory and accounting initiatives, as well as off-balance-sheet structures, on the financial statements of the company

9.2.9 assist the board in reviewing the integrated report to ensure that the information is reliable and that it does not contradict the financial aspects of the report.

The committee shall review and challenge where necessary:

9.2.10 the consistency of, and any changes to, accounting policies both on a year on year basis and across the company;

9.2.11 the methods used to account for significant or unusual transactions where different approaches are possible;

9.2.12 whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;

9.2.13 the clarity of disclosure in the company's financial reports and the context in which statements are made; and

9.2.14 all material information presented with the financial statements, such as the operating and financial review, the corporate governance statement (insofar as it relates to the audit and risk management) and the disclosure on sustainability issues (to ensure no conflict with financial information).

9.3 Whistle blowing and fraud

The committee shall:

9.3.1 review the company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;

9.3.2 ensure that there is a process in place to be informed of any reportable irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor; and

9.3.3 review the company's procedures for detecting and preventing fraud and bribery and receiving reports on non-compliance.

9.4 Internal Audit

The committee shall:

9.4.1 monitor and review the effectiveness of the company's internal audit function in the context of the company's overall internal controls and risk management systems, including giving consideration to periodic independent quality review of the function as deemed appropriate;

9.4.2 approve the appointment and removal of the CAE;

9.4.3 consider and approve the remit of the internal audit function and ensure it has adequate resources, skills, qualifications and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The committee shall also ensure the function has adequate standing and is free from management or other restrictions;

9.4.4 approve the internal audit charter and perform an annual review of the charter, making recommendations for changes if required;

9.4.5 review and approve the annual internal audit plan;

9.4.6 evaluate the formal review of financial controls conducted annually by the internal audit function on behalf of the board and report to the board and shareholders on the effectiveness of the company's internal controls;

9.4.7 review all reports on the company from the CAE, including managements responsiveness to findings and recommendations;

9.4.8 meet the CAE at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the CAE shall have the right of direct access to the chairman of the board and to the committee; and

9.4.9 perform an annual assessment of the internal audit function's responsibility, budget and staffing, with input from the external auditor.

9.5 Reporting Responsibilities

9.5.1 The chairman of the committee shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

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

9.5.3 The committee shall consider, on an annual basis, and satisfy itself of the appropriateness of the expertise of the chief financial officer (acting as the financial director) and will report to shareholders in the company's Annual Report that it has executed this responsibility.

9.5.4 The committee shall compile a report to shareholders on its activities to be included in the company's annual financial statements:

King IV proposes that the following information relating to the functioning of the audit committee is provided (usually as part of the audit committee report in the governance section of the integrated report):

- its overall role and associated responsibilities and functions
- its composition, including each member's qualifications and experience
- any external advisers or invitees who regularly attend committee meetings
- key areas of focus during the reporting period
- the number of meetings held during the reporting period and attendance at those meetings
- whether the committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference
- a statement as to whether the audit committee is satisfied that the external auditor is independent of the organisation. The statement should specifically address:

  - the policy and controls that address the provision of non-audit services by the external auditor, and the nature and extent of such services rendered during the financial year
  - the tenure of the external audit firm and, in the event of the firm having been involved in a merger or acquisition, including the tenure of the predecessor firm
  - the rotation of the designated external audit partner
  - significant changes in the management of the organisation during the external audit firm's tenure which may mitigate the attendant risk of familiarity between the external auditor and management.

- significant matters that the audit committee has considered in relation to the annual financial statements, and how these were addressed by the committee
- the audit committee's views on the quality of the external audit, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulators
- the audit committee's views on the effectiveness of the chief audit executive and the arrangements for internal audit
- the audit committee's views on the effectiveness of the design and implementation of internal financial controls, and on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or error
- the audit committee's views on the effectiveness of the CFO and the finance function
- the arrangements in place for combined assurance and the committee's views on its effectiveness
- commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company.

9.6 Other Matters

The committee shall:

9.6.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretary of the company for assistance as required

9.6.2 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

9.6.3 at least once a year, review the appropriateness of the expertise, experience and adequacy of resources of the company finance function

9.6.4 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort

9.6.5 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

10 Authority

The committee derives its authority from the statutory duties as contained in section 94 of the Companies Act, as well as from the delegated authority of the board as contained in this document. The committee is authorised:

10.1 to conduct investigations into any matters within its scope of responsibility;

10.2 to seek any information it requires from any employee, officer or director of any company in the company or external party in order to perform its duties;

10.3 to obtain, at the company's expense, any outside legal or other professional advice it shall reasonably require in connection with the performance of its duties;

10.4 to require the chairmen of the other board committees, any of the executive directors, any officer of the company, company secretary or assurance providers to provide it with information;

10.5 to call any employee to be questioned at a meeting of the committee as and when required;

10.6 to have the right to publish in the company's integrated report details of any issues that cannot be resolved between the committee and the board; and

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

The committee has decision-making authority in regard to its statutory duties of verifying the independence of the external auditor, determining the fee for the external auditor, and for the terms of engagement of the external auditor.

APPENDIX B

Audit committee planning tool

Audit committee calendar of activities

Audit committees can use this tool to help plan their annual activities and meeting agendas. It considers the requirements for the audit committees as per the Companies Act, 2008, King IV and the JSE Listings Requirements, as well as common practices in the marketplace and is subject to change if additional guidance is issued. The "Results From" section indicates if the action or responsibility results from a requirement of the Companies Act, 2008, King IV and the JSE Listings Requirements, or a common or emerging practice. The action or responsibility, as described, may not be an explicit legislative or regulatory requirement or proposal, but may be an action that logically results from other legislative or regulatory requirements or proposals. The "Suggested Frequency" section offers a benchmark for how often the activity should be performed, while the "Meeting Month" section provides an area where the audit committee can mark the months in which an activity should be performed. The audit committee should use this tool in conjunction with the "Sample Audit Committee Charter," and it should be tailored to reflect the responsibilities in the company's audit committee charter.

This document is not an all-inclusive list of activities that an audit committee should or must execute. The planning tool contains general information only and does not constitute, and should not be regarded as, legal or similar professional advice or service. Deloitte does not accept any responsibility for any errors this publication may contain, whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies on it.

The information presented can and will change; we are under no obligation to update such information. Deloitte makes no representations as to the sufficiency of these tools for your purposes, and, by providing them, we are not rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. These tools should not be viewed as a substitute for such professional advice or services, nor should they be used as a basis for any decision that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser. Deloitte does not assume any obligations as a result of your access to or use of these tools.

This planning tool is designed for South African companies. All companies should consult with legal counsel regarding the applicability and implementation of the various activities identified.

	Results from						Meeting Month											
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
General Responsibilities																		
Review audit committee members' compliance with applicable independence rules and regulations.	●					Annually and as needed												
As necessary, engage outside legal, accounting, or other advisers and provide funding to compensate those advisers.		●			●	As needed												
Report regularly to the board of directors regarding the execution of duties and responsibilities.		●			●	Each board meeting												

	Results from						Meeting Month											
Action/ Responsibility	Companies Act 2008	King IV	JSE Listings	Other Requirement	Common Practice	Suggested Frequency	January	February	March	April	May	June	July	August	September	October	November	December
General Responsibilities																		
Review the financial literacy and expertise of all audit committee members. Determine audit committee financial expert status and determine that members are in compliance with applicable rules and regulations.	●	●			●	Annually												
Conclude each regular audit committee meeting with an executive session of the committee, without members of management.					●	Each audit committee meeting												
Periodically, meet with management privately to discuss any necessary matters.		●			●	Quarterly												

	Results from						Meeting Month											
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
General Responsibilities																		
Consider and plan for succession of audit committee members					●	Annually												
Review, with management, the company's finance function, including its budget, organisation and quality of personnel		●			●	Annually												
Review of Financial/Controls Information																		
Review and discuss with management and the external auditors the company's annual financial statements prior to filing.		●		●		Annually												
Review the internal auditor's assessment of internal controls.		●				Annually												

	Results from					Meeting Month												
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
Review of Financial/Controls Information																		
Review other reports rendered by the external auditors and submitted by the company to any governmental body or the public.					●	As needed												
Discuss the financial information and earnings guidance provided to analysts and ratings agencies. This discussion may be in general terms.		●			●	Annually												
Review the regular internal reports to management prepared by the internal audit function and management's response.					●	Semi-annually												

	Results from						Meeting Month											
Action/ Responsibility	Companies Act 2008	King IV	JSE Listings	Other Requirement	Common Practice	Suggested Frequency	January	February	March	April	May	June	July	August	September	October	November	December
External auditor Relationship																		
Nominate an external auditor for appointment by the shareholders.	●	●				Annually												
Compensate, retain, and oversee the work of the external auditor for the purpose of preparing or issuing an audit report or related work.	●	●				Ongoing												
Review the performance of the external auditor, including the lead audit partner. Ensure that partners are rotated in accordance with applicable requirements.	●	●			●	Annually												

	Results from						Meeting Month											
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
External auditor Relationship																		
Pre-approve audit and non-audit services provided by the external auditor.	●	●				In accord-ance with policy (as necessary)												
Consider the independence of the auditor, including engaging in dialogue with the external auditor with respect to any disclosed relationships or services that may affect the independence and objectivity of the auditor and take appropriate actions to oversee independence.	●	●			●	Annually and as needed												
Oversee the resolution of disagreements between management and the external auditor if they arise.		●				As needed												

	Results from						Meeting Month											
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
External auditor Relationship																		
Review with the external auditor any problems or difficulties encountered in the course of the audit and management's response.					●	Annually												
Review the audit plan and scope with the external auditor.				●		Annually												
Review written communications between the external auditor and management, including (but not limited to) the management letter and schedule of unadjusted differences.				●		As reported by the external auditor												
Periodically, meet with the external auditor privately to discuss any matters necessary.		●			●	Quarterly												

	Results from						Meeting Month											
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
Financial Reporting Processes, Accounting Policies, and Internal Control																		
In consultation with the external auditor and the internal audit function, review the integrity of the company's financial reporting processes (both internal and external) and the internal control structure (including disclosure controls and procedures and internal control over financial reporting).					●	Quarterly												
In consultation with the external auditor and the internal audit function and management, review the combined assurance model.		●				Annually												

	Results from						Meeting Month											
Action/ Responsibility	Companies Act 2008	King IV	JSE Listings	Other Requirement	Common Practice	Suggested Frequency	January	February	March	April	May	June	July	August	September	October	November	December
Financial Reporting Processes, Accounting Policies, and Internal Control																		
Review with management major issues regarding accounting principles and presentation of the financial statements, including any significant changes in the company's selection or application of accounting principles, major issues as to the adequacy of the company's internal controls, and any special audit steps adopted in response to material control deficiencies.					●	Quarterly												
Review management's analyses of financial reporting issues and judgments made in connection with the preparation of the financial statements.					●	Quarterly												

Action/ Responsibility	Results from: Companies Act 2008	King IV	JSE Listings	Other Requirement	Common Practice	Suggested Frequency	Meeting Month: January	February	March	April	May	June	July	August	September	October	November	December
Financial Reporting Processes, Accounting Policies, and Internal Control																		
Review with management the effect of regulatory and accounting initiatives, as well as off-balance-sheet structures, on the financial statements of the company.					●	As needed												
Review and approve all related-party transactions.					●	Quarterly												
Review the adequacy of procedures for the receipt, retention, and treatment of complaints regarding accounting, internal control, or auditing matters, including procedures for confidential, anonymous submissions by company employees.	●	●			●	Annually												

	Results from						Meeting Month											
Action/ Responsibility	Companies Act 2008	King IV	JSE Listings	Other Requirement	Common Practice	Suggested Frequency	January	February	March	April	May	June	July	August	September	October	November	December
Financial Reporting Processes, Accounting Policies, and Internal Control																		
Receive and review reports or complaints of questionable accounting, auditing, or internal control matters.	●	●			●	Semi-annually or quarterly												
Internal Audit Activities																		
Review and advise on the selection or removal of the Chief Audit Executive.		●			●	As needed												
Periodically, meet with Internal Audit privately to discuss any necessary matters.		●			●	Quarterly												

	Results from						Meeting Month											
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
Internal Audit Activities																		
Periodically, review with Internal Audit any significant difficulties, disagreements with management, or scope restrictions encountered in the course of the function's work.					●	Annually												
Review the activities and organisational structure of the internal audit function, as well as the qualifications of its personnel.		●			●	Annually												
Review the internal audit charter and plan and recommend any necessary changes.		●			●	Annually												

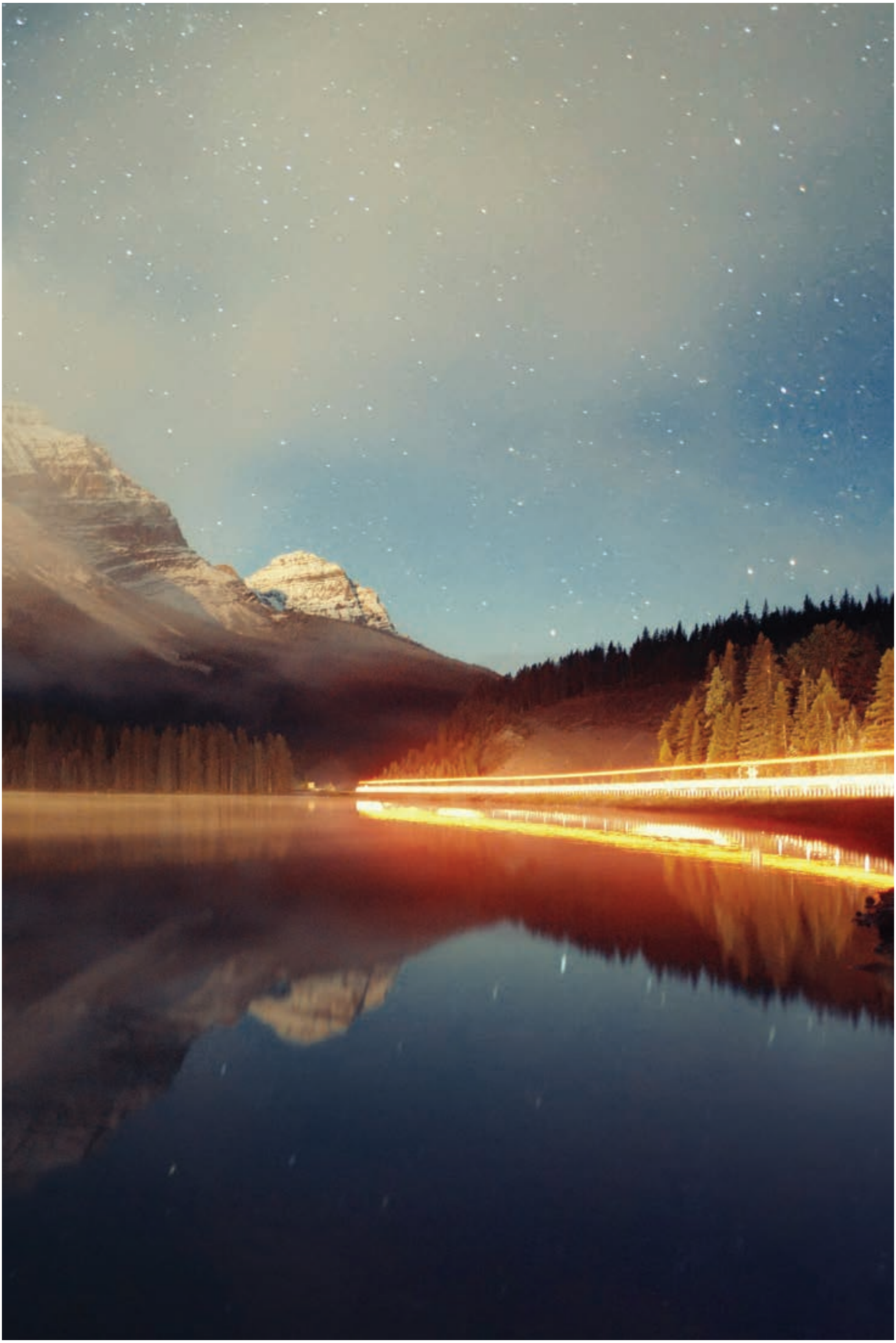
Action/ Responsibility	Results from: Companies Act 2008	King IV	JSE Listings	Other Requirement	Common Practice	Suggested Frequency	Meeting Month: January	February	March	April	May	June	July	August	September	October	November	December
Internal Audit Activities																		
Periodically review, with Internal Audit, the internal audit function's responsibilities, budget, and staffing.		●			●	Annually												
Risk Management																		
Discuss with management significant risk exposures, including major financial and accounting risk exposures, and the steps taken by management to control them.		●			●	Annually												

Action/ Responsibility	Results from Companies Act 2008	King IV	JSE Listings	Other Requirement	Common Practice	Suggested Frequency	Meeting Month January	February	March	April	May	June	July	August	September	October	November	December
Other Responsibilities																		
Prepare a report, to be included in the annual financial statements for that financial year (i) describing how the audit committee carried out its functions (ii) stating whether the audit committee is satisfied that the auditor was independent of the company, and (iii) commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company	●	●				Annually												

	Results from						Meeting Month											
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
Other Responsibilities																		
Oversee the integrated reporting process: (i) Consider all factors and risks that may impact on the integrity of the integrated report (ii) review the annual financial statements (iii) comment in the annual financial statements on the financial statements, the accounting practices and the effectiveness of the internal financial controls		●				Annually												

	Results from						Meeting Month											
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
Other Responsibilities																		
(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 whether or not to engage an external assurance provider on material sustainability issues (vi) recommend the integrated report for approval by the board																		
Review the audit committee charter; recommend to the board of directors any necessary amendments, as conditions dictate.		●			●	Annually												

	Results from						Meeting Month											
Action/ Responsibility	**Companies Act 2008**	**King IV**	**JSE Listings**	**Other Requirement**	**Common Practice**	**Suggested Frequency**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
Other Responsibilities																		
Review, with the external auditors, the internal audit function, and management, the extent to which changes or improvements in financial or accounting practices, as approved by the audit committee, have been implemented.					●	Annually												
Participate in appropriate continuing education.					●	As needed												
Assess performance relative to the audit committee's purpose, duties, and responsibilities.		●			●	Annually												



APPENDIX C

Audit committee performance evaluation

The following questionnaire is based on emerging and leading practices to assist in the self-assessment of an audit committee's performance. It is not intended to be all-inclusive.

When completing the performance evaluation, consider the following process:

- select a coordinator and establish a timeline for the process
- in addition to audit committee members completing the form as a self-evaluation, ask individuals who interact with the audit committee members to provide feedback
- ask each audit committee member to complete an evaluation by selecting the appropriate rating that most closely reflects the audit committee's performance related to each practice
- consolidate into a summarised document for discussion and review by the committee.

For each of the following statements, select a number between 1 and 5, with 1 indicating that you strongly disagree and 5 indicating that you strongly agree with the statement. Select 0 if the point is not applicable or you do not have enough knowledge or information to rank the organisation's audit committee on a particular statement.

Circle one number for each statement	0 - Not applicable	1 - Strongly disagree	2 - Disagree	3 - Acceptable	4 - Agree	5 - Strongly agree
Composition and Quality						
1. Qualified audit committee members are identified by sources independent of management (e.g. independent board members assisted by an outside search firm).						
2. Audit committee members have the appropriate qualifications to meet the objectives of the audit committee's charter, including appropriate financial literacy.						
3. The audit committee demonstrates integrity, credibility, trustworthiness, active participation, an ability to handle conflict constructively, strong interpersonal skills, and the willingness to address issues proactively.						
4. The audit committee demonstrates appropriate industry knowledge and includes a diversity of experiences and backgrounds.						
5. Members of the audit committee meet all applicable independence requirements.						
6. The audit committee participates in a continuing education programme to enhance its members' understanding of relevant accounting, reporting, regulatory, auditing, and industry issues.						
7. The audit committee monitors compliance with the Companies Act, King IV and other relevant corporate governance regulations and guidelines.						
8. The audit committee reviews its charter annually to determine whether its responsibilities are described adequately and recommends changes to the board for approval.						

Circle one number for each statement	0 - Not applicable	1 - Strongly disagree	2 - Disagree	3 - Acceptable	4 - Agree	5 - Strongly agree
Composition and Quality						
9. New audit committee members participate in an orientation programme to educate them on the company, their responsibilities, and the company's financial reporting and accounting practices.						
10. The audit committee chairman is an effective leader.						
11. The audit committee, in conjunction with the nominations committee (or its equivalent), creates a succession and rotation plan for audit committee members, including the audit committee chairman.						
Understanding the Business, including Risks						
12. The audit committee considers or knows that the full board or other committees take into account significant risks that may directly or indirectly affect financial statement reporting. examples include:						
• Regulatory and legal requirements • Concentrations (e.g. suppliers and customers) • Market and competitive trends • Financing and liquidity needs • Financial exposures • Business continuity • Company reputation • Financial strategy execution • Financial management's capabilities • Management override • Fraud control • Company pressures, including "tone at the top"						

Circle one number for each statement	0 - Not applicable	1 - Strongly disagree	2 - Disagree	3 - Acceptable	4 - Agree	5 - Strongly agree
Understanding the Business, including Risks						
13. The audit committee considers, understands, and approves the process implemented by management to effectively identify, assess, and respond to the organisation's key risks.						
14. The audit committee understands and approves management's fraud risk assessment and has an understanding of identified fraud risks.						
15. The audit committee considers the company's performance versus that of its peers in a manner that enhances comprehensive risk oversight by using reports provided directly by management to the audit committee or at the full board meeting. These may include benchmarking information comparing the company's financial performance and ratios with industry competitors and peers, industry trends, analyst estimates, and budget analysis with explanations for areas where significant differences are apparent.						
Process and Procedures						
16. The audit committee reports its proceedings and recommendations to the board after each committee meeting.						
17. The audit committee develops a calendar that dedicates the appropriate time and resources needed to execute its responsibilities.						
18. Audit committee meetings are conducted effectively, with sufficient time spent on significant or emerging issues.						

Circle one number for each statement	0 - Not applicable	1 - Strongly disagree	2 - Disagree	3 - Acceptable	4 - Agree	5 - Strongly agree
Process and Procedures						
19. The level of communication between the audit committee and relevant parties is appropriate; the audit committee chairman encourages input on meeting agendas from committee and board members, management, the internal auditors, and the external auditors.						
20. The audit committee sets clear expectations and provides feedback to the full board concerning the competency of the organisation's CFO and senior financial management.						
21. The audit committee has input into the succession planning process for the CFO.						
22. The agenda and related information (e.g. prior meeting minutes, press releases, and financial statements) are circulated in advance of meetings to allow audit committee members sufficient time to study and understand the information.						
23. Written materials provided to audit committee members are relevant and concise.						
24. Meetings are held with enough frequency to fulfill the audit committee's duties and at least quarterly, which should include periodic visits to company locations with key members of management.						
25. Regularly, audit committee meetings include separate private sessions with financial management and the internal and external auditors.						

Circle one number for each statement	0 - Not applicable	1-Strongly disagree	2 - Disagree	3 - Acceptable	4 - Agree	5 - Strongly agree
Process and Procedures						
26. The audit committee maintains adequate minutes of each meeting.						
27. The audit committee and the remuneration committee regularly review management incentive plans to consider whether the incentive process is appropriate.						
28. The audit committee meets periodically with the committee responsible for reviewing the company's disclosure procedures.						
29. The audit committee respects the line between oversight and management of the financial reporting process.						
30. Audit committee members come to meetings well prepared.						
Process and Procedures						
31. The audit committee considers the quality and appropriateness of financial accounting and reporting, including the transparency of disclosures.						
32. The audit committee reviews the company's significant accounting policies.						
33. The audit committee understands and approves the process used by management to identify and disclose related-party transactions.						
34. The audit committee oversees the organisation's external financial reporting and internal control over financial reporting.						

Circle one number for each statement	0 - Not applicable	1-Strongly disagree	2 - Disagree	3 - Acceptable	4 - Agree	5 - Strongly agree
Process and Procedures						
35. The audit committee receives sufficient information to assess and understand management's process for evaluating the organisation's system of internal controls (e.g. financial reporting and disclosure controls, operation controls, compliance controls) and also believes that management's scope of internal control testing adequately supports its internal control assessment.						
36. The audit committee understands and gives appropriate consideration to the internal control testing conducted by management, the internal auditors, and the external auditors to assess the process for detecting internal control issues or fraud (combined assurance model). Any significant deficiencies or material weaknesses that are identified are addressed, reviewed, and monitored by the audit committee.						
37. The audit committee makes inquiries of the external auditors, internal auditors, and management on the depth of experience and sufficiency of the company's accounting and finance staff.						
38. The audit committee reviews the management recommendation letters written by the independent and internal auditors and monitors the process to determine that all significant matters are addressed.						
39. The audit committee oversees that management takes action to achieve resolution when there are repeat comments from auditors, particularly those related to internal controls.						

Circle one number for each statement	0 - Not applicable	1-Strongly disagree	2 - Disagree	3 - Acceptable	4 - Agree	5 - Strongly agree
Process and Procedures						
40. Adjustments to the financial statements that resulted from the audit are reviewed by the audit committee, regardless of whether they were recorded by management.						
41. The audit committee is consulted when management is seeking a second opinion on an accounting or auditing matter.						
Oversight of Audit Functions						
42. The audit committee understands the coordination of work between the independent and internal auditors and clearly articulates its expectations of each.						
43. The audit committee regularly reviews the adequacy of the internal audit function (e.g. the charter; audit plan; budget; compliance; and number, quality, and continuity of staff).						
44. The audit committee oversees the role of the internal audit director from selection to termination (e.g. appointment, evaluation, compensation, and retention) and provides feedback at least annually.						
45. The internal audit reporting lines established with the audit committee promote an atmosphere where significant issues that might involve management will be brought to the attention of the audit committee.						
46. The audit committee appropriately considers internal audit reports, management's responses, and steps toward improvement.						

Circle one number for each statement	0 - Not applicable	1-Strongly disagree	2 - Disagree	3 - Acceptable	4 - Agree	5 - Strongly agree
Process and Procedures						
47. The audit committee oversees the role of the external auditors from selection to termination and has an effective process to evaluate the external auditors' qualifications and performance.						
48. The audit committee considers the independent audit plan and provides recommendations.						
49. The audit committee determines the audit fees paid to the external auditors						
50. The audit committee comprehensively reviews management's representation letters to the external auditors, including making inquiries about any difficulties in obtaining the representations.						
51. The audit committee pre-approves all audit and non-audit services provided by the external auditors and considers the scope of the non-audit services provided.						
52. The audit committee reviews other professional services that relate to financial reporting (e.g. consulting, legal, and tax strategy services) provided by outside consultants.						
53. The audit committee monitors the process to determine that the external auditors' partners are rotated in accordance with applicable rules.						
54. The audit committee has private executive sessions with management and the internal and external auditors that result in candid discussion of pertinent issues.						

Circle one number for each statement	**0 - Not applicable**	**1-Strongly disagree**	**2 - Disagree**	**3 - Acceptable**	**4 - Agree**	**5 - Strongly agree**
Monitoring Activities						
55. An annual performance evaluation of the audit committee is conducted and any matters that require follow-up are resolved and presented to the full board.						
56. The company provides the audit committee with sufficient funding to fulfill its objectives and engage external parties for matters requiring external expertise.						

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