



# **Audit Committee Terms of Reference**

## 1 INTRODUCTION

- 1.1 The Audit Committee ("Committee") is constituted as a statutory committee of AECI Limited ("the Company") in respect of its statutory duties in terms of s94(7) of the Companies Act 2008, and a committee of the board in respect to all other duties assigned to it by the board.
- 1.2 The duties and the responsibilities of the members of the committee as set out in this document are in addition to those duties and responsibilities that they have as members of the board. The deliberations of the Committee do not reduce the individual and collective responsibilities of the board members in regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgement in accordance with their legal obligations.
- 1.3 These terms of reference are subject to the provisions of the Companies Act, the Company's Memorandum of Incorporation ("MOI") and any other applicable law or regulatory provision.

## 2 MANDATE AND PURPOSE OF THE TERMS OF REFERENCE

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

## 3 COMPOSITION OF THE COMMITTEE

- 3.1 The Committee, to be elected by the shareholders on recommendation by the Nomination Committee, shall comprise a Chairman and minimum 2 (two) other members, all of whom shall be independent non-executive directors.
- 3.2 The chairman of the Risk Committee shall be an *ex officio* member of this Committee. All members of the Committee must be suitably skilled and experienced independent non-executive directors.
- 3.3 The Chairman of the Committee shall be an independent non-executive director of the Company elected by the Board and who is not the Chairman of the Board. The Chairman of the Board is not eligible to be a member of the Committee. Other directors and senior executives may, at the Chairman of the Committee's discretion, be invited to attend meetings of the Committee from time to time.
- 3.4 The Company's Chief Executive and Financial Director may be required to attend meetings of the Committee as invitees only and they may not vote at these meetings.
- 3.5 The Committee shall require that the lead audit partner of the external auditor and the head of internal audit attend all meetings of the Committee as invitees only and they may not vote at these meetings;
- 3.6 The members of the Committee must collectively have sufficient qualifications, skill and experience to fulfil their duties, including an understanding of the following:
  - 3.6.1 financial and sustainability reporting;
  - 3.6.2 internal financial controls;
  - 3.6.3 external audit process;
  - 3.6.4 internal audit process;
  - 3.6.5 corporate law;

- 3.6.6 fraud risk management;
  - 3.6.7 information technology governance as it relates to integrated reporting;
  - 3.6.8 governance processes and global best practice;
  - 3.6.9 Taxation and related best practices; and
  - 3.6.10 JSE related compliances and practices.
- 3.7 The members of the Committee are expected to keep up-to-date with developments affecting the required skill-set.
  - 3.8 A member of the Committee shall, in the event that he/she ceases for whatsoever reasons to be a director of the Company, also resign as a member of the Committee. Notwithstanding anything to the contrary contained herein, the board shall have the power at all times to remove any member from the Committee and to fill any vacancies created by such removal. The board must fill vacancies on the Committee within 40 (forty) business days after the vacancy arises.
  - 3.9 The Committee shall be entitled to co-opt specialists as invitees on the Committee, but this should be the exception rather than the rule and such specialists should comprise a minority at Committee meetings.
  - 3.10 The Chairman should, subject to satisfactory performance and being re-elected as a member of the Committee after each annual general meeting of the Company, not hold office as the Chairman of the Committee for a period exceeding 9 (nine) consecutive years.
  - 3.11 While there may be instances in which it is appropriate for an independent non-executive director to serve as Chairman of the Committee for longer than 9 (nine) consecutive years, the reasons therefore should be carefully considered and disclosed by the Committee (in conjunction with the Nomination Committee and the Board) prior to such re-election.

#### 4 **ROLE**

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

#### 5 **MEETINGS AND PROCEDURES**

##### 5.1 **Attendance**

- 5.1.1 The Chief Executive Officer, Chief Financial Officer Director, head of internal audit, representatives from the external auditors, other assurance providers, professional advisors and Board members may be in attendance at Committee meetings, but by invitation only and they may not vote.
- 5.1.2 Committee members must attend all scheduled meetings of the Committee, including meetings called on an ad hoc-basis for special matters, unless prior apology, with reasons, has been submitted to the Chairman of the Committee or the Group Company Secretary.
- 5.1.3 The Group Company Secretary or his/her nominee shall be the secretary of the Committee.

- 5.1.4 If the nominated Chairman of the Committee is absent from a meeting, the members present must elect one of the members present to act as Chairman.

## 5.2 Frequency

- 5.2.1 Meetings shall be held not less than 4 (four) times per annum. These meetings should preferably take place:
- 5.2.1.1 once in February of each year to inter alia review and recommend to the Company's board for approval, the Company's audited financial statements for the previous financial year ended 31 December as well as the integrated report for the reporting period;
  - 5.2.1.2 once in July of each year to inter alia review and recommend to the Company's board for approval, the Company's interim financial statements for the half year ended 30 June;
  - 5.2.1.3 once in October of each year to inter alia approve the external auditors year end audit plan, approve the internal audit plan and review the statutory, governance and other regulatory requirements affecting the Committee and its members as well as keeping members up to date on new accounting and related developments;
  - 5.2.1.4 once in November of each year to, inter alia, review the Committee's Terms of Reference, and to determine whether the Committee complied with its responsibilities under the Terms of Reference.
- 5.2.2 Meetings in addition to those scheduled may, with approval of the Chairman, be held at the request of the external auditors, the Chief Executive Officer, the Chief Financial Officer or the Head of Internal audit, or any other person may consider there is sufficient reason to request a meeting.
- 5.2.3 At least once per annum the Committee must meet with the external auditors without management, as the Committee may elect. Likewise the Committee should meet at least once per annum with the head of internal audit and members of his team without the external auditors, other executive Board members or the Company's Chief Financial Officer being present.
- 5.2.4 Members and/or invitees of the Committee may participate in and act at any meeting of the Committee through the use of a conference telephone or other communication equipment by means of which all persons participating in the meeting can hear each other. Participation in such meeting shall constitute attendance and presence in person at the meeting by the person or persons so participating.

## 5.3 Agenda and Minutes

- 5.3.1 The Committee must establish an annual work plan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year. The annual plan must ensure proper coverage of the matters laid out in the Committee's mandate and terms of reference. The number, timing and length of meetings, and the agendas are to be determined in accordance with the annual plan.
- 5.3.2 Unless otherwise agreed, a detailed agenda, together with supporting

documentation, must be circulated to the Members of the Committee, the Chief Executive Officer and the Chief Financial Officer at least one week prior to each meeting. Committee members must be fully prepared for Committee meetings, to provide appropriate and constructive input on matters discussed.

- 5.3.3 The Group Company Secretary shall be responsible for the timeous distribution of the agendas and supporting papers to members and other attendees and the timeous production of minutes of the meeting for review by the Committee Chairman and members of the Committee. Minutes of meetings shall be distributed to Committee members, and must be formally approved by the Committee and signed by the Chairman at its next scheduled meeting.
- 5.3.4 The Committee Chairman shall make a brief report to the Board at the Board meeting immediately following any meeting of the Committee on any matters of importance as well as on the Committee's findings and recommendations of the Committee to the Board. Supporting schedules and information reviewed by the Committee shall be available for examination by any director upon request to the Group Company Secretary.
- 5.3.5 The minutes of all meetings of the Committee shall be submitted to the Board at the next scheduled Board meeting thereafter.

#### 5.4 **Quorum**

A representative quorum for meetings is 2 (two) directors present and available for the meeting. Individuals in attendance at Committee meetings by invitation may participate in discussions but do not form part of the quorum for Committee meetings.

### 6 **FINANCIAL REVIEW AND RISK COMMITTEE MEETINGS**

- 6.1 To assist the Committee, Financial Review and Risk Committees ("FRRC") shall be formed at each of the major business units in the AECI Group. These FRRCs shall be chaired by a member of the Committee and held at least 3 (three) times per annum to:
  - 6.1.1 interrogate the financials of the major business units in the AECI Group;
  - 6.1.2 receive and satisfy themselves as to reports from external and internal assurance providers e.g. risk management, compliance, internal audit etc.;
  - 6.1.3 review in detail the internal and external audit plans;
  - 6.1.4 approve the cost budgets of internal and external audit;
  - 6.1.5 pre-approve any non-audit service to be performed by the external auditor;
  - 6.1.6 perform any other duty as required by the Committee.
- 6.2 Minutes of the FRRC meetings shall be included in the agenda papers and a verbal report shall be given to the Committee by each FRRC chairman.

### 7 **AUTHORITY**

- 7.1 The Committee has decision-making authority in regard to its statutory duties and is accountable in this respect to both the Board and the shareholders. To this end the Chairman of the Committee must be present at all annual general meetings ("AGM") to

answer questions, through the Chairman of the Board, on the report on the Committee's activities and matters within the scope of the Committee's responsibilities. On all responsibilities delegated to it by the Board outside of the statutory duties, the Committee makes recommendations for approval by the Board.

- 7.2 The Committee acts in accordance with its statutory duties and the delegated authority of the Board as recorded in this mandate and terms of reference. It has the power to investigate any activity within the scope of its mandate and terms of reference.
- 7.3 The Committee, in the fulfilment of its duties, may call upon the Chairmen of the other Board committees, any of the executive directors, Company officers, Group Company Secretary, other Company employees or assurance providers to provide it with information, subject to a Board approved process.
- 7.4 The Committee has reasonable access to the Company's records, facilities, employees and any other resources necessary to discharge its duties and responsibilities subject to a Board approved process being followed.
- 7.5 The Committee may form, and delegate authority to, sub-committees and may delegate authority to one or more designated members of the Committee.
- 7.6 The Committee has the right to obtain independent outside professional advice to assist with the execution of its duties, at the Company's cost, subject to a Board approved process being followed.

## 8 RESPONSIBILITIES

The responsibilities of the Committee shall include:

### 8.1 Integrated Reporting

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

- 8.1.1 have regard to all factors and risks that may impact on the integrity of the integrated report, including factors that may predispose management to present a misleading picture, significant judgements and reporting decisions made, monitoring or enforcement actions by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information;
- 8.1.2 review the annual financial statements, interim reports, preliminary or provisional results announcements, summarised integrated information, any other intended release of price-sensitive information and prospectuses, trading statements and similar documents;
- 8.1.3 comment in the annual financial statements on the financial statements, the accounting practices and the effectiveness of the internal financial controls;
- 8.1.4 review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- 8.1.5 recommend to the Board the engagement of an external assurance provider on material sustainability issues;
- 8.1.6 recommend the integrated report for approval by the Board;

- 8.1.7 consider the frequency for issuing interim results;
- 8.1.8 consider whether the external auditor should perform assurance procedures on the interim results;
- 8.1.9 review the content of the summarised information to assess whether it provides a balanced view; and
- 8.1.10 engage the external auditor to provide assurance on the summarised financial information.

## 8.2 **Combined Assurance**

The Committee shall ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities, and in particular the Committee should:

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

## 8.3 **Finance Function and Financial Director**

- 8.3.1 The Committee is responsible for reviewing the expertise, resources and experience of the Company's finance function, and for disclosing the results of the review in the integrated report.
- 8.3.2 The Committee also considers and satisfies itself annually of the appropriateness of the expertise and experience of the Company's Chief Financial Officer, who shall be an executive director.

## 8.4 **Internal Audit**

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

- 8.4.1 be responsible for the appointment, performance assessment and/or dismissal of the head of internal audit;
- 8.4.2 provide input to the Executive as regards the performance and remuneration to be paid to the Head of internal audit;
- 8.4.3 approve the internal audit plan, as well as the internal audit charter;
- 8.4.4 ensure that the internal audit function is subject to an independent quality review, as and when the Committee determines it appropriate; and
- 8.4.5 review the functioning of the internal audit programme and department, ensure co-ordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company.

## 8.5 Risk Management

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

- 8.5.1 financial reporting risks;
- 8.5.2 internal financial controls;
- 8.5.3 fraud risks as it relates to financial reporting; and
- 8.5.4 IT risks as it relates to financial reporting.

## 8.6 External Audit

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

- 8.6.1 nominate the external auditor for appointment by the shareholders;
- 8.6.2 approve the terms of engagement and remuneration for the external audit engagement;
- 8.6.3 ensure that the appointment or re-appointment of the external auditor complies with the Companies Act;
- 8.6.4 monitor and report on the independence and objectivity of the external auditor in the annual financial statements;
- 8.6.5 set mandatory term limits on the length of time the lead audit partner of the external auditor may serve the Company, which term limits shall not exceed 5 (five) consecutive financial years;
- 8.6.6 define a policy for Board approval, addressing the use of the external auditor for non-assurance related services. In addition to the related Companies Act requirement, there should be a separate disclosure of the amount paid for audit and non-assurance related services with a detailed description in the notes to the annual financial statements of the nature thereof together with the amounts paid for each of the services described. This shall not apply to opinion work;
- 8.6.7 pre-approve any proposed agreements for non-assurance services to be rendered by the external auditor;
- 8.6.8 determine and agree with the external auditor before the annual audit commences the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved;
- 8.6.9 ensure that there is a process for the Committee to be informed of any Reportable Irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor;
- 8.6.10 review the quality control procedures and effectiveness of the external audit process;
- 8.6.11 consider whether the external auditor is accredited by the JSE Limited as required in terms of the JSE Limited Listings Requirements;

- 8.6.12 review the external auditor's management letter and management's response, if available, and/or consider the matters to be dealt with therein;
- 8.6.13 every other year evaluate the external auditor performance and effectiveness taking into consideration factors such as, inter alia, audit planning, technical abilities, audit process/ outputs and quality control, business insight, consultancy abilities and independence; and
- 8.6.14 discuss problems and reservations (if and when applicable) arising from the annual audit and any matters incidental thereto which the external auditor may wish to discuss (in the absence of management where necessary).

## 8.7 Compliance

Without derogating from the generality of any of the aforementioned responsibilities, the Committee must:

- 8.7.1 retain a copy of the current mandate and terms of reference of the Committee at the registered office of the Company and provide shareholders with a copy of the same if requested;
- 8.7.2 consider other topics, as defined by the Board;
- 8.7.3 review, with the Company's in-house and/or external attorneys, any legal matters that could have a significant impact on the Company's financial statements;
- 8.7.4 review policies on sensitive issues or practices such as environmental issues;
- 8.7.5 review the Company's procedure for handling allegations from whistle-blowers; and
- 8.7.6 review and monitor managements compliance with the AECI Group's Code of Ethics and Business Conduct and to consider and recommend to the board management's plans to address and/or amend these codes.

## 9 REPORTING

- 9.1 The external and internal auditors shall have unrestricted access to the Committee and its Chairman.
- 9.2 The Committee must also report to the shareholders at the Company's AGM on how it has fulfilled its duties in terms of the Companies Act during the financial year. The Committee's report at the AGM must:
  - 9.2.1 describe how the Committee carried out its functions in terms of the Act;
  - 9.2.2 state whether the Committee is satisfied that the external auditor was independent of the Company; and
  - 9.2.3 contain comment in any way the Committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the Company.

- 9.3 As a minimum, the Committee should provide the following information in the integrated report:
  - 9.3.1 a summary of the role of the Committee;
  - 9.3.2 a statement on whether or not the Committee has adopted a formal mandate and terms of reference that have been approved by the board and if so, whether the Committee satisfied its responsibilities for the year in compliance with its mandate and terms of reference;
  - 9.3.3 the names and qualifications of all members of the Committee during the period under review, and the period for which they served on the Committee;
  - 9.3.4 the number of Committee meetings held during the period under review and members' attendance at these meetings;
  - 9.3.5 a statement on whether or not the Committee considered and recommended the internal audit charter for approval by the Board;
  - 9.3.6 a description of the working relationship with the head of internal audit;
  - 9.3.7 information about any other responsibilities assigned to the Committee by the Board;
  - 9.3.8 a statement on whether the Committee complied with its legal, regulatory or other responsibilities; and
  - 9.3.9 a statement on whether or not the Committee recommended the integrated report to the Board for approval.

**10 REVIEW AND ASSESSMENT**

- 10.1 The Committee's activities and effectiveness should be assessed periodically and reviewed by the Board.
- 10.2 This mandate and terms of reference may, from time to time, be amended as required, subject to the approval of the Board.
- 10.3 These terms of reference will be due for review in 2017.

**Prepared by:**

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**Ms EN Rapoo**  
**Group Company Secretary**

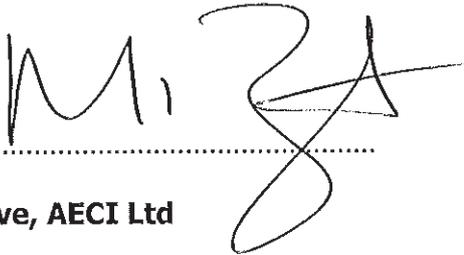
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**Date**

**Approved and Accepted:**



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**Mr RMW Dunne**  
**Audit Committee Chairman, AECI Ltd**

25/07/2014  
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**Date**



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**Mr MA Dytor**  
**Chief Executive, AECI Ltd**

25/07/2014  
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**Date**