

**LENMED INVESTMENTS LIMITED**

**AUDIT AND RISK COMMITTEE**

**TERMS OF REFERENCE**

## 1. Introduction

- 1.1. The Committee is constituted as a standing committee of Lenmed Investments Limited (“the Company” or “the Group”).
- 1.2. The duties and responsibilities of the members of the Committee as set out in this Terms of Reference are in addition to those duties and responsibilities that they have as members of the Board. The deliberations and decisions of the Committee do not reduce the individual and collective responsibilities of Board members in regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgement in accordance with their legal and statutory obligations.
- 1.3. The Committee reports to and is accountable to the board of directors.
- 1.4. These terms of reference are subject to the Companies Act, the Company’s Memorandum of Incorporation and any other applicable law or regulation.
- 1.5. The committee has an independent role with accountability to both the board and shareholders. The committee does not assume the functions of management, which remains the responsibility of the executive directors, officers and other members of senior management.

## 2. Purpose of the Terms of Reference

- 2.1. The purpose of the 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 shall comprise at least three members, being independent directors on the board of the Company.
- 3.2. The Board, having first assessed and endorsed the suitability of the members so proposed for appointment, shall recommend the appointment for subsequent approval by shareholders at the Annual General Meeting.
- 3.3. All members of the Committee must be suitably skilled and experienced non-executive directors. The Committee must collectively have sufficient qualifications and experience to fulfil its duties, including an understanding of the following:
  - financial and sustainability reporting;
  - internal financial controls;
  - external audit process;
  - internal audit process;
  - corporate law;
  - risk management;

- sustainability issues;
- information technology governance as it relates to integrated reporting;
- governance processes within the Group.

3.4. The Committee shall be chaired by an independent non-executive director, who shall be elected annually by the Board.

3.5. The Board shall have the power at any time to remove a delinquent director from the Board in accordance with the provisions of the Memorandum of Incorporation, the Companies Act and/or the directors' Letter of Appointment. In such an instance the director's membership on the Committee will automatically and immediately terminate, so as to fall on the same date as the termination of his/her directorship.

3.6. The Board must fill a vacancy on the Committee within 40 business days after the vacancy arises.

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

#### **4. Role**

The Committee has an independent role, with the 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. Responsibilities**

##### **5.1. Subsidiaries**

- (a) The Committee's Mandate extends to include all subsidiaries, divisions and business units ("entities") that fall within the Group and this Terms of Reference applies to them as if each of them has adopted this Terms of Reference.

##### **5.2. Integrated Reporting**

5.2.1. The Committee shall oversee the finalisation of the Integrated Report (IR).

- (a) In particular the Committee must have regard to:
- (i) all audit aspects factors and risks that may impact on the integrity of the IR, including factors that may predispose management to present a misleading picture;
  - (ii) significant judgements and/or unadjusted differences resulting from the audit, as well as any reporting decisions made;
  - (iii) monitoring of enforcement actions by a regulatory body;
  - (iv) any evidence that brings into question previously published information, forward-looking statements or information.

5.2.2. The Committee shall furthermore:

- (b) Review the principles, policies and practices adopted in preparation of the IR of companies in Group and to ensure that the IR of the Group and other formal announcements relating to the financial performance comply with all statutory requirements as may be required. In this regard the Committee must review the annual financial statements and half-year results and any other intended release of price-sensitive information and prospectuses, trading statements and similar documents;
- (c) Comment on the annual financial statements and the accounting practices and the effectiveness of the internal financial controls;
- (d) Review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- (e) Prepare a report, to be included in the annual financial statements for each financial year:
  - (i) describing how the Committee carried out its functions;
  - (ii) stating whether the 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 effectiveness of the internal financial controls of the group.
- (f) Recommend to the Board whether or not to engage an external assurance provider on material sustainability issues;
- (g) Recommend the IR for approval by the Board;
- (h) Review the content of the summarised information to ensure it provides a balanced view;
- (i) Consider whether the External Auditors should perform assurance on the interim results;
- (j) Engage the External Auditors to provide assurance on the summarised financial information.
- (k) 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 practices of the company's financial statements;
  - (iii) the internal financial controls of the company;
  - (iv) any related matter.
- (l) Perform other functions determined by the Board, including the development and implementation of a policy and plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the company.
- (m) Review the following submissions to the Board:
  - (i) adequacy of capital;
  - (ii) significant taxation issues;
  - (iii) significant financial reporting judgements and estimates contained in them;
  - (iv) clarity and completeness of disclosure and whether disclosures made have been set properly in context;
  - (v) quality and acceptability of, and any changes in accounting policies and practices;
  - (vi) adequacy of disclosures and the reasons for fluctuations in ratios contained in published documentation;
  - (vii) effectiveness of financial management and the quality of internal accounting control systems and reports produced by financial management;

- (viii) review significant transactions entered into by the Group, including the issue of new shares to the public, transactions that change the control structure of the Company and the acquisition and disposal of businesses (external and intra-group);
  - (ix) review significant adjustments resulting from the audit and the appropriateness of major adjustments processed at financial year-end;
  - (x) compliance with accounting standards and legal requirements;
  - (xi) reflection of unusual circumstances or events and management’s explanation for the accounting treatment adopted;
  - (xii) reasons for major year-on-year fluctuations;
  - (xiii) asset valuations and non-listed investments and re-valuations;
  - (xiv) calculation and levels of general and specific provisions;
  - (xv) impairments;
  - (xvi) write-offs and reserve transfers;
  - (xvii) financial control, records and accounting;
  - (xviii) basis for the going concern assumption.
- (n) Review measures to enhance the credibility and objectivity of the financial statements.
- (o) Report its views to the Board where, following its review, the Committee is not satisfied with any aspect of the proposed financial reporting by the company.

### **5.3. Combined Assurance**

The Committee should ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities. The Committee is an integral component of the combined assurance and risk management process and must assist the board in the discharge of its duties relating to management assurance. In particular the Committee should:

- (a) Ensure that the combined assurance received is appropriate to address all the significant risks facing Group;
- (b) Monitor the relationship between the external assurance providers and the Group;
- (c) Review the expertise, resources and experience of the company’s Finance function, and disclose the results of their review in the integrated report.

### **5.4. Internal Audit**

It is noted that the Company has an Internal Audit function. The matters below are the responsibility of the Committee in regard to overseeing the Internal Audit function and its effectiveness viz:

- (a) Approve the Internal Audit plan and ensure that it is complete and an effective tool;
- (b) Review and update the Internal Audit Charter from time to time;
- (c) Review and discuss with the Group Internal Audit Manager the scope of work of the Internal Audit function, the issues identified as a result of its work and management’s responses to Internal Audit’s findings and recommendations;
- (d) Monitor and ensure that close co-operation exists between Internal Audit, External Audit and as well as the company secretary;
- (e) Review Internal Audit’s opinion on the Company’s internal financial controls and the internal control and risk management systems;

- (f) Review the effectiveness of Internal Audit's policies and processes for identifying and assessing business risks;
- (g) Obtain and review reports on the prevention of fraud-related matters and controls;
- (h) Obtain and review assurance reports on operational effectiveness.

#### **5.5. Risk Management**

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

- (a) financial reporting risks;
- (b) internal financial controls;
- (c) fraud risks as they relates to financial reporting;
- (d) IT risks as they relate to financial reporting.

5.6. The role of the committee is to assist the board to ensure that:

- (a) the Company has implemented an effective policy and plan for risk management that will enhance the Company's ability to achieve its strategic objectives;
- (b) the disclosure regarding risk in the financial statements/annual report is comprehensive, accurate, timely and relevant;
- (c) the combined risk-assurance model is appropriate to address all the significant risks facing the Group;
- (d) the Group's risk management operations are adequate and effective.
- (e) Assist the Board in carrying out its IT responsibilities, including –
  - ensure that IT is aligned with the performance and sustainability objectives of the Company;
  - oversee the implementation of an IT governance framework;
  - monitor and evaluate significant IT investments and expenditure;
  - ensure that IT forms an integral part of the Company's risk management process;
  - ensure that information assets are managed effectively; and
  - consider reports and presentations in regard to IT matters.

5.7. The Committee must perform all the functions as are necessary to fulfil its role as stated above, and in particular shall:

- (a) oversee the development of a risk philosophy, strategy policy and plan for risk management and recommend the afore-mentioned for approval to the Board;
- (b) monitor the management or risks within the Group by overseeing the development and design of appropriate control measures;
- (c) periodically review / examine risk management practices against the risk strategy, the Group's strategy, mission and vision statements;
- (d) annually review the plan and policy;
- (e) monitor implementation of risk management principles, systems and processes and their effectiveness;
- (f) oversee that the risk management plan and other risk information is widely disseminated to appropriate staff throughout the group and integrated in the day-to-day activities of the group;

- (g) review the risk management information that is to be included in the integrated report to ensure that it is comprehensive, correct, true and relevant;
- (h) oversee that continuous risk monitoring by management takes place and that risk management assessments are performed on a continuous basis;
- (i) oversee that frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks;
- (j) express the Committee's formal opinion to the Board on the effectiveness of the system and process of risk management;
- (k) receive assurance on risk-related performance measures and indicators;
- (l) review and assess the integrity of the overall risk exposure and risk control systems;
- (m) monitor external developments relating to the practice of corporate accountability;
- (n) review the adequacy of insurance coverage.

5.8. The Committee shall review risks in the wider sense, which includes:

- investment risks;
- underwriting risks;
- liquidity and solvency risks;
- credit and market risks;
- legal risks;
- operational risks;
- compliance and corporate governance risks;
- financial performance risks;
- safety, and security risks;
- taxation risks;
- interest rate risks;
- broad-based black economic empowerment and employment equity risks;
- people development and succession planning risks;
- information technology (IT) risks;
- business continuity and disaster recovery risks;
- insurance risks;
- crime risks;
- HIV/Aids risks;
- marketing and merchandise risks;
- competitive and market behaviour risks;
- reputation risks;
- business controls risks;
- fraud and losses risks;
- the risk of uncertainties;
- other risks which may be relevant from time to time.

#### **5.9. External Audit**

The Committee is responsible for recommending the appointment of the external auditors and to oversee the external audit process and must:

- (a) Nominate the designated External Audit firm for appointment by shareholders at each AGM;
- (b) Nominate the individual External Auditor responsible for the Company's audit, for appointment by shareholders at each AGM and monitor the rotation requirements of the designated auditor;
- (c) Ensure that the appointment of the auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors;
- (d) Approve the terms of engagement for the external audit engagement;
- (e) Monitor and report on the independence of the External Auditor in the annual financial statements by assessing his independence in accordance with the provisions of International Standards on Auditing;
- (f) Approve the fees/remuneration for the external audit engagement;
- (g) Formulate a policy for non-audit services provided by the External Auditor defining the nature and extent of such services;
- (h) Pre-approve the contracts for non-audit services to be rendered by the External Auditor;
- (i) Report in the annual financial statements relevant details (such as the scope and value) of non-audit services rendered by the External Auditor;
- (j) Ensure that it receives from the External Auditor information of any Reportable Irregularities in terms of the Auditing Profession Act of 2005, as may have been reported by the External Auditor;
- (k) Review the quality and effectiveness of the external audit process;
- (l) Following resignation of the External Auditor, investigate the reasons giving rise to such resignation and consider any further action in this regard;
- (m) Review the External Auditor's management letter and management's responses.

#### **5.10. Compliance, Legal and Governance**

The Committee shall review the management of risk and the monitoring of compliance and legal governance effectiveness within the Group.

- (a) In respect of compliance it shall:
  - (i) Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance;
  - (ii) Ensure that all regulatory compliance matters have been considered in the preparation of the financial statements;
  - (iii) Review arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters (whistle blowing);
  - (iv) Ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
  - (v) Consider the major findings of internal investigation and management's response.
- (b) In respect of Legal, it shall review and consider any legal matters, contingencies and reports as may be required, as well as new and emerging legislation and their potential impact and implications on the business.
- (c) In respect of tax it shall review any reports on tax and consider any significant issues as may be required.



- (d) In respect of Governance, it shall:
  - (i) In co-operation with the company secretary, review developments in corporate governance and best practice and consider their impact and implications on the Group;
  - (ii) Monitor the application and the effectiveness of the Company's Code of Conduct ("ethics") within the Group.
- (e) Ensure that the principles of the King Report on Corporate Governance (King III) are being embedded within the Group;

**5.11. Authority**

- (a) The Committee acts in accordance with the Company's Memorandum of Incorporation, applicable legislation and the delegated authority of the Board as recorded in this Terms of Reference. In particular, it has the power to investigate any activity across the Group's operations within the scope of its Terms of Reference;
- (b) The Committee, in the fulfilment of its duties, may call upon the chairmen of subsidiary and other Board committees, any of the directors, officers, company secretary or assurance providers, to provide it with information it may require, on endorsement of the Committee chairman;
- (c) The Committee shall have access to the Group's records, facilities and other resources necessary to discharge its duties and responsibilities, subject to a Board mandate;
- (d) The Committee may form subcommittees and may delegate authority to such committees and/or to one or more designated members of such committee;
- (e) The Committee has the right to obtain independent outside professional advice to assist with the execution of its duties, at Company's cost, subject to a Board mandate;
- (f) The Committee has decision-making authority in regard to its statutory duties and is accountable in this respect to both the Board and shareholders.
- (g) In respect of all responsibilities delegated to it by the Board (other than statutory duties), the Committee makes recommendations for approval by the Board.

**5.12. Meetings and Procedures**

**(a) Frequency**

- (i) The Committee must hold sufficient meetings to discharge all its duties as set out in this Terms of Reference, but subject to a minimum of two meetings per year.
- (ii) Meetings in addition to those scheduled may, with approval of the Committee Chairman, be held at the request of the External Auditor, the Chief Executive Officer, the Chief Financial Officer, the Group Internal Manager, or other members of senior management or at the instance of the Board.
- (iii) The Committee must meet with the Internal and External Auditors at least once a year without management being present.
- (iv) The committee chairman will ensure that sufficient time is allocated to all topics on agenda, both financial and risk.

**(b) Attendance**

- (i) The Chief Executive Officer, the Chief Financial Officer, Group Internal Manager, representatives from the External Auditors, other assurance providers, professional advisors and Board members other than Committee members may be in attendance at Committee meetings, but by invitation only and they may not vote.
- (ii) All directors have a standing invitation to attend meetings of the Committee and to participate in proceedings, subject to the limitation mentioned in (i) above.
- (iii) Committee members must attend all scheduled meetings of the Committee, including meetings called on an *ad-hoc* basis for considering special matters, unless prior apology, with reasons, has been submitted to the Committee chairman and the company secretary.
- (iv) The company secretary is the secretary to this Committee, but in the instance that he/she is unable to fulfil his/her duties, the Committee chairman can nominate another person to act as scribe and carry out the secretary's duties.
- (v) If the chairman of the Committee is absent from a meeting, the members present must elect one of the members present to act as chairman for that meeting.
- (vi) The chairman of the Committee must be present at all annual general meetings to respond to any shareholder questions relating to the Committee, its activities or audit issues:
- (vii) The chairman of the Committee may exclude any member or attendee from Committee meetings for the duration of a meeting or for any specific item(s) under discussion if he believes there is sufficient justification to do so.

**(c) Agenda, Minutes and Annual Work Plan**

- (i) The Committee must formulate 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 this Terms of Reference and in the Internal Audit Charter. The more critical matters must be attended to each year, while other matters may be dealt with on a rotation basis over a three-year period. The number and timing of meetings will be determined in accordance with the annual plan.
- (ii) A detailed agenda will be determined in accordance with the annual work plan and in co-operation with Internal Audit, the Group Chief Executive Officer and the Chairman of the Committee. The agenda should allow for other members to add additional matters to the agenda for discussion and consideration.
- (iii) The agenda, together with supporting documentation, must be circulated, at least one week prior to each meeting, to the members of the Committee and other invitees.
- (iv) Committee members must be fully prepared for Committee meetings, to provide appropriate and constructive input on matters for discussion and decision-making.
- (v) The chairman of the committee should give a verbal summary of the committee's deliberations at the board meeting following the last committee meeting. The minutes of

the committee shall be submitted to the subsequent board meeting and be formally approved by the Committee at its next meeting.

**(d) Quorum**

- (i) A quorum for meetings is a majority of members. Members may take part in meetings *via* any form of electronic conferencing medium and when doing so, shall be regarded as being in attendance and be counted in the number for determining the quorum.
- (ii) Individuals in attendance at Committee meetings by invitation may participate in discussions, but do not form part of the quorum for Committee meetings and may not vote.

## **6. Reporting in the Integrated Report**

The committee should as a minimum disclose the following in the integrated report –

- (a) composition of the committee;
- (b) number of meetings held;
- (c) attendance at meetings;
- (d) the manner in which the committee has discharged its duties;
- (e) whether appraisals of the committee have been conducted and an overview of the results of the performance assessment and action plans to be implemented, if any;
- (f) a report describing how the committee carried out its functions;
- (g) stating whether the committee is satisfied that the auditor was independent of the company; and
- (h) commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the effectiveness of the internal financial controls of the group.

## **7. Evaluation**

7.1. With the assistance from the company secretary, the committee members must annually perform a self-evaluation of the Committee's performance as a whole and report their findings to the Board.

7.2. The Committee should thereafter consider whether there is a need for an external assurance provider to carry out a performance assessment of the Committee.

## **8. Fees/Remuneration**

8.1. Members of the Committee shall receive such fees as determined by the Board of Directors and subject to the approval of shareholders.

## **9. Approval and amendment of these Terms of Reference**

- 9.1. These Terms of Reference may from time to time be amended as circumstances dictate, subject to approval by the Board.
  
- 9.2. This amended/updated Terms of Reference were adopted by the Committee on 29 January 2013 approved by the board on 29 July 2013. The terms of reference were further reviewed by the committee on 10 February 2014 and 30 May 2014, and approved by the Board on 12 June 2014

## **10. Annual Work Plan**

Refer item 5 12 (c) (i) above.