

 <b>AFRIMAT</b> LIMITED	<b>INTERNAL AUDIT SERVICES CHARTER</b>	www.afrimat.co.za
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## MISSION AND SCOPE OF WORK

The mission of the Internal Audit Service (“IAS”) is to provide independent, risk based internal auditing and consulting services designed to add value and to improve Afrimat Limited’s (“Afrimat” or “Company”) operations. It helps the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the IAS is to determine whether the Company’s network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employee’s actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently and adequately protected;
- Programmes, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Company’s control process; and
- Significant legislative or regulatory issues impacting the Company are recognised and addressed properly.

Opportunities for improving management control, profitability, and the organisation’s image may be identified during audits. They will be communicated to the appropriate level of management.

IAS could outsource certain audits to external service providers or use in-house staff, which is sufficiently independent, for specialist internal audits.

The position of Chief Audit Executive (“CAE”) will be performed by an official designated by the Audit & Risk Committee, who is sufficiently independent. The size of Afrimat Limited does not warrant a full time position.

## ACCOUNTABILITY

The IAS and CAE, in the discharge of its duties, shall be accountable to the Audit & Risk Committee to:

- Provide annually an assessment on the adequacy and effectiveness of the organisation’s processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work;

- Report significant issues related to the processes for controlling the activities of the organisation and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution;
- Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources; and
- Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

## **INDEPENDENCE**

To provide for the independence of the IAS, it reports functionally to the Audit & Risk Committee and the CAE reports functionally to the Chairman of the Audit & Risk Committee in a manner outlined in the above section on Accountability. It will include as part of its reports to the Audit & Risk Committee a regular report on the level of coverage.

## **RESPONSIBILITY**

The Internal Audit Service has the responsibility to:

- Develop a flexible annual audit plan using appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Audit & Risk Committee for review and approval;
- Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the Audit & Risk Committee;
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter;
- Establish a quality assurance programme by which the IAS assures the operation of internal auditing activities;
- Issue periodic reports to the Audit & Risk Committee and management summarising results of audit activities;
- Keep the Audit & Risk Committee informed of emerging trends and successful practices in internal auditing;
- Provide a list of significant measurement goals and results to the Audit & Risk Committee;
- Once mandated, assist in the investigation of significant suspected fraudulent activities within the organisation and notify management and the Audit & Risk Committee of the results; and
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organisation at a reasonable overall cost.

## **AUTHORITY**

The IAS is authorised to:

- Have unrestricted access to all functions, records, property, and personnel;
- Have full and free access to the Audit & Risk Committee;
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives; and

- Obtain the necessary assistance of personnel in units of the organisation where they perform audits, as well as other specialised services from within or outside the organisation.

The Internal Audit Service is not authorised to:

- Perform any operational duties for the organisation or its affiliates;
- Initiate or approve accounting transactions external to the internal auditing department; or
- Direct the activities of any organisation employee not employed by the internal auditing department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors

## **STANDARDS OF AUDIT PRACTICE**

The IAS will meet or exceed the *International Standards for the Professional Practice of Internal Auditing* of The Institute of Internal Auditors. In the event that a specialist internal audit is done by independent in-house staff then specific standards for the internal audit will be agreed by the Audit & Risk Committee and CAE.

## **KING IV**

Internal audit shall be managed and internal audits conducted in terms of the King Code of Governance Principles for South Africa 2016.

**“Extract from the King Code is as follows:**

### **Internal Audit**

48. The governing body should assume responsibility for internal audit by setting the direction for the internal audit arrangements needed to provide objective and relevant assurance that contributes to the effectiveness of governance, risk management and control processes. The governing body should delegate oversight of internal audit to the audit committee, if in place.
49. The governing body should approve an internal audit charter that defines the role and associated responsibilities and authority of internal audit, including addressing its role within combined assurance and the internal audit standards to be adopted.
50. The governing body should ensure that the arrangements for internal audit provide for the necessary skills and resources to address the complexity and volume of risk faced by the organisation, and that internal audit is supplemented as required by specialist services such as those provided by forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries.
51. If a chief audit executive (CAE) position is provided for in the arrangements for internal audit, the governing body should ensure that the position is set up to function independently from management who designs and implements the controls that are in place, and that the position carries the necessary authority.
52. The governing body should approve the appointment of the CAE, including the employment contract and remuneration of the CAE, and ensure that the person who fills the position has the necessary competence, gravitas and objectivity.

53. For reasons of independence, the CAE should have access to the chair of the audit committee.
54. For reasons of independence, the CAE should not be a member of executive management, but should be invited to attend executive meetings, as necessary, to be informed about strategy and policy decisions and their implementation.
55. Where internal audit services are co-sourced or outsourced, the governing body should ensure that there is clarity on who fulfils the role of CAE.
56. The CAE should report to the chair of the audit committee on the performance of duties and functions that relate to internal audit. On other duties and administrative matters, the CAE should report to the member of executive management designated for this purpose as appropriate for the organisation.
57. The governing body should have primary responsibility for the removal of the CAE.
58. The governing body should monitor on an ongoing basis that internal audit:
  - a. Follows an approved risk-based internal audit plan; and
  - b. Reviews the organisational risk profile regularly, and proposes adaptations to the internal audit plan accordingly.
59. The governing body should ensure that internal audit provides an overall statement annually as to the effectiveness of the organisation's governance, risk management and control processes.
60. The governing body should ensure that an external, independent quality review of the internal audit function is conducted at least once every five years.
61. The governing body should obtain confirmation annually from the CAE that internal audit conforms to a recognised industry code of ethics.

**END.**