

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, as the size of Afrimat Limited does not warrant a dedicated 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 III

Internal audit shall be managed and internal audits conducted in terms of the King Code of Governance Principles for South Africa 2009.

“Extract from the King Code is as follows:

7. Internal Audit

7.1 The board should ensure that there is an effective risk based internal audit.

7.1.1 Companies should establish an internal audit function.

7.1.2 Internal audit should perform the following functions:

7.1.2.1 Evaluate the company’s governance processes;

7.1.2.2 Perform an objective assessment of the effectiveness of risk management and the internal control framework;

7.1.2.3 Systematically analyse and evaluating business processes and associated controls; and

7.1.2.4 Provide a source of information as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities.

7.1.3 An internal audit charter should be defined and approved by the board.

- 7.1.4 The internal audit function should adhere to the IIA Standards and code of ethics.
- 7.2 Internal audit should follow a risk based approach to its plan
 - 7.2.1 The internal audit plan and approach should be informed by the strategy and risks of the company.
 - 7.2.2 Internal audit should be independent from management.
 - 7.2.3 Internal audit should be an objective provider of assurance that considers:
 - 7.2.3.1 The risks that may prevent or slow down the realisation of strategic goals;
 - 7.2.3.2 Whether controls are in place and functioning effectively to mitigate these; and
 - 7.2.3.3 The opportunities that will promote the realisation of strategic goals that are identified, assessed and effectively managed by the company's management team.
- 7.3 Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management.
 - 7.3.1 Internal audit should form an integral part of the combined assurance model as internal assurance provider;
 - 7.3.2 Internal controls should be established not only over financial matters, but also operational, compliance and sustainability issues;
 - 7.3.3 Companies should maintain an effective governance, risk management and internal control framework;
 - 7.3.4 Management should specify the elements of the control framework;
 - 7.3.5 Internal audit should provide a written assessment of the system of internal controls and risk management to the board;
 - 7.3.6 Internal audit should provide a written assessment of internal financial controls to the audit & risk committee;
- 7.4 The audit & risk committee should be responsible for overseeing internal audit
 - 7.4.1 The internal audit plan should be agreed and approved by the audit & risk committee;

- 7.4.2 The audit & risk committee should evaluate the performance of the internal audit function;
- 7.4.3 The audit & risk committee should ensure that the internal audit function is subjected to an independent quality review;
- 7.4.4 The CAE should report functionally to the audit & risk committee chairman;
- 7.4.5 The audit & risk committee should be responsible for the appointment, performance assessment and dismissal of the CAE;
- 7.4.6 The audit & risk committee should ensure that the internal audit function is appropriately resourced and has appropriate budget allocated to the function;
- 7.4.7 Internal audit should report at all audit & risk committee meetings;
- 7.5 Internal audit should be strategically positioned to achieve its objectives
 - 7.5.1 The internal audit function should be independent and objective;
 - 7.5.2 The internal audit function should report functionally to the audit & risk committee;
 - 7.5.3 The CAE should have a standing invitation to attend executive committee meetings;
 - 7.5.4 The internal audit function should be skilled and resourced as is appropriate for the complexity and volume of risk and assurance needs;
 - 7.5.5 The CAE should develop and maintain a quality assurance and improvement programme.”

END.