



TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

1. **INTRODUCTION**

The Audit Committee (the committee) is constituted as a statutory committee¹ of The SPAR Group Limited (the company) and as a committee of the board. A statutory audit committee has the power to make decisions regarding its statutory duties, and is accountable for its performance in this regard. In addition to its statutory duties, the board may delegate other responsibilities to the committee, such as the approval of the annual financial statements, but the board remains ultimately accountable for such delegation responsibilities.²

The delegation by the board of its responsibilities to a committee or a member will not by or of itself constitute a discharge of the board's accountability. The board should apply its collective mind to the information, opinions, recommendations, reports and statements presented by the committee or the member.³

These terms of reference are subject to:

- the provisions of the Companies Act 2008, as amended;
- the Companies regulations, 2011;
- the company's Memorandum of Incorporation;
- the JSE Listings Requirements;
- King IV Code on Corporate Governance published on 1 November 2016; and
- any other applicable law or regulatory provision.

2. **CODE ON CORPORATE GOVERNANCE (King IV)**

King IV states that:

"the establishment of an audit committee is a statutory requirement for some companies. As a matter of leading practice, the board of any company that issues audited financial statement should consider establishing an audit committee, the role of which should be to provide independent oversight of:

- the effectiveness of the company'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, to the extent delegated by the board, other external reports issues by the organisation."⁴

¹ Section 94 of the Companies Act 2008, as amended & paragraph 3.84(d) of the JSE Listings Requirements

² Principle 8(52) of King IV

³ Principle 8(49) of King IV

⁴ Principle 8(51) of King IV

“the audit committee should oversee the management of financial and other risks that affect the integrity of external reports issued by the company.”⁵

“the governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the company’s external reports.”⁶

3. **SCOPE**

3.1 **Membership**⁷

3.1.1 The committee shall comprise of a minimum of three members subject to legal provisions, where applicable.⁸ All members of the committee should be independent non-executive members of the board.⁹ The committee shall include at least one member of the risk committee and where possible, a member of the remuneration committee.

3.1.2 Members of the committee are elected annually by shareholders at each annual general meeting of the company on the recommendation of the nomination committee and board. The board must appoint a person to fill the vacancy on the committee within 40 (forty) business days after the vacancy arises.

3.1.3 The chair should be an independent non-executive member, elected by the board.¹⁰ The chair of the board should not be a member of the committee.

3.1.4 Appointments shall be for a period of up to three years extendable by no more than two additional three-year periods, so long as members (other than the chair of the board, if he or she is a members of the committee) continue to be independent.¹¹

3.1.5 The chief executive, financial director, internal audit manager and external auditor lead partner shall attend committee meetings by standing invitation. Members of the executive, senior management and external advisors may be invited to attend for all or part of the meeting, as and when appropriate and necessary to provide pertinent information and insights in their areas of responsibility. Every member of the board is entitled to attend the committee meeting as an observer. However, unless that member is also a member of the committee, the member is not entitled to participate without the consent of the chair of the committee; does not have a vote; and is not entitled to fees for such attendance, unless payment of fees is agreed to by the board and shareholders.¹²

3.1.6 The members of the committee as a whole should have the necessary financial literacy, skills and experience to execute their duties effectively.¹³

⁵ Principle 8(54) of King IV

⁶ Principle 15 of King IV

⁷ Principle 8(43)(a) of King IV – composition of the committee

⁸ Principle 8(46) of King IV

⁹ Principle 8(56) of King IV

¹⁰ Principle 8(57) of King IV

¹¹ Principle 8(43)(d) of King IV – tenure of the committee

¹² Principle 8(48) of King IV

¹³ Principle 8(55) of King IV

3.2 **Secretary**

The company secretary or his or her nominee shall act as the secretary of the committee.

3.3 **Quorum**

The quorum necessary for the transaction of business shall be two members.

3.4 **Meetings**¹⁴

3.4.1 The committee must hold sufficient scheduled meetings to discharge all its duties as set out in these terms of reference, but subject to a minimum of three meetings per year.

3.4.2 The committee should meet annually with the internal and external auditors respectively, without management being present, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.¹⁵

3.4.3 Meetings of the committee shall be called by the secretary of the committee in accordance with the year planner. Meetings in addition to those scheduled may be held at the request of the board, the chair of the committee, the chair of the board, the chief executive or other members of the executive or senior management.

3.4.4 Unless otherwise agreed, notice of the meeting confirming venue, time date together with agenda items to be discussed, shall be forwarded to each member of the committee, any other person required to attend, no later than five (5) working days before the date of the meeting. Supporting papers shall be sent to committee members and to other attendees at the same time.

3.4.5. Committee members must attend all scheduled meetings, including meetings called on an ad hoc-basis, unless prior apology, with reasons, has been submitted to the committee chair or secretary.

3.4.6 Committee members must be fully prepared for the committee meeting and should provide appropriate and constructive input on matters discussed.

3.4.7 In the absence of the committee chair, the remaining members present shall elect one of themselves to chair the meeting.

3.4.8 The committee shall on an annual basis establish work plan to ensure that all relevant matters are covered by the agendas of the meetings planned for the year. The work plan must ensure proper coverage of the duties laid out in these terms of reference. The more critical matters will need to be attended to each year while other matters may be dealt with on a rotation basis over a three-year period. The number, timing and length of meetings, and the agendas are to be determined in accordance with the work plan.

3.4.9 The secretary shall minute the proceedings of all meetings of the committee.

¹⁴ Principle 8(43)(g) of King IV – meeting procedures to be followed

¹⁵ Principle 8(58) of King IV

3.4.10 Draft minutes of committee meetings shall be circulated promptly to all members of the committee. Once approved, minutes should be circulated to all other members of the board. The minutes must be formally approved by the committee at its next scheduled meeting.

3.5 **Annual General Meeting**

The committee chair should attend the annual general meeting to answer any shareholder questions on the committee's activities.

3.6 **Duties**¹⁶

The committee should:

3.6.1 nominate, for appointment as auditor of the company under section 90 of the Companies Act, 2008 as amended, a registered auditor who, in the opinion of the committee, is independent of the company;

3.6.2 determine the fees to be paid to the auditor and the auditor's terms of engagement;

3.6.3 determine 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 and pre-approve any proposed agreement with the auditor for the provision of non-audit services to the company;

3.6.4 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 auditing of the company's financial statements; the internal financial controls of the company; or any related matter;

3.6.5 make submission to the board on any matter concerning the company's accounting policies, financial controls, records and reporting.

Combined assurance

3.6.6 assume responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions and oversee that the arrangements are effective in achieving the following objectives:

3.6.6.1 enabling an effective internal control environment;

3.6.6.2 supporting the integrity of information used for internal decision making by management, the board and its committees;

3.6.6.3 supporting the integrity of external reports;

¹⁶ Principles 8(43)(b) & 15 of King IV – the committee's overall role and associated responsibilities and functions, including assurance requirements Section 94 of the Companies Act, 2008 as amended

- 3.6.7 satisfy itself that a combined assurance model is applied which incorporates and optimises the various assurance services and functions so that, taken as a whole, these support the objectives for assurance;
- 3.6.8 oversee that the combined assurance model is designed and implemented to cover effectively the company's significant risks and material matters through a combination of the following assurance service providers and functions as is appropriate for the company:
- 3.6.8.1 the company's line functions that own and manage risks;
- 3.6.8.2 the company's specialist functions that facilitate and oversee risk management and compliance;
- 3.6.8.3 internal auditors, internal forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries;
- 3.6.8.4 independent external assurance service providers such as external auditors;
- 3.6.8.5 other external assurance providers such as sustainability and environmental auditors, external actuaries and external forensic fraud examiners and auditors;
- 3.6.8.6 regulatory inspectors;
- 3.6.9 assess the output of the company combined assurance with objectivity and professional scepticism and by applying an enquiring mind, form their own opinion on the integrity of information and reports, and the degree to which an effective control environment has been achieved;

Assurance of external reports

- 3.6.10 assume responsibility for the integrity of external reports issued by the company by setting the direction for how assurance of these should be approached and addressed;
- 3.6.11 take into account legal requirements in relations to assurance, with the following additional considerations:
- 3.6.11.1 whether assurance should be applied to the underlying data used to prepare a report, or to the process for preparing and presenting a report, or both;
- 3.6.11.2 whether the nature, scope and extent of assurance are suited to the intended audience and purpose of a report;
- 3.6.11.3 the specification of applicable criteria for the measurement or evaluation of the underlying subject matter of the report;
- 3.6.12 satisfy itself that the combined assurance model is effective and sufficiently robust for the board to be able to place reliance on the combined assurance underlying the statements that the board makes concerning the integrity of the company's external reports;

3.6.13 external reports should disclose information about the type of assurance process applied to each report. In addition to the independent, external audit opinions provided in terms of legal requirements. This information should include:

3.6.13.1 a brief description of the nature, scope and extent of the assurance functions, services and processes underlying the preparation and presentation of the report;

3.6.13.2 a statement by the board on the integrity of the report and the basis for this statement, with reference to the assurance applied;

Internal audit

3.6.14 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;

3.6.15 recommend an internal audit charter for board approval 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;

3.6.16 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 company, and that internal audit is supplemented as required by specialist's services such as those provided by forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries;

3.6.17 ensure that the internal audit manager 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;

3.6.18 recommend to the board for approval the appointment of the internal audit manager, including the employment contract and remuneration of the internal audit manager, and ensure that the person who fits the position has the necessary competence, gravitas and objectivity;

3.6.19 for reasons of independence, the internal audit manager should have access to the chair of the committee and should not be a member of the executive management, but should be invited to attend executive meetings, as necessary, to be informed about strategy and policy decisions and their implementation;

3.6.20 the internal audit manager should report to the chair of the committee on the performance of duties and functions that relate to internal audit. On other duties and administrative matters the internal audit manager should report to the financial director;

3.6.21 have primary responsibility for the removal of the internal audit manager;

3.6.22 monitor on an ongoing basis that internal audit:

3.6.22.1 follows an approved risk-based internal audit plan;

3.6.22.2 reviews the company risk profile regularly and proposes adaptations to the internal audit plan accordingly;

- 3.6.23 ensure that internal audit provides an overall statement annually as to the effectiveness of the company governance, risk management and control processes;
- 3.6.24 ensure that an external, independent quality review of the internal audit function is conducted at least once every five years; and
- 3.6.25 obtain confirmation annually from the internal audit manager that internal audit conforms to a recognised industry code of ethics.

3.7 **Reporting responsibilities**

- 3.7.1 The committee chair shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 3.7.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 3.7.3 The committee shall ensure that provisions regarding disclosure of information are fulfilled and produce a report to be included in the company's annual report. The following should be disclosed:¹⁷
 - 3.7.3.1 its overall role and associated responsibilities and functions;
 - 3.7.3.2 its composition, including each member's qualifications and experience;
 - 3.7.3.3 any external advisers or invitees who regularly attend committee meetings;
 - 3.7.3.4 key areas of focus during the reporting period;
 - 3.7.3.5 the number of meetings held during the reporting period and attendance at those meetings;
 - 3.7.3.6 whether the committee is satisfied that it fulfilled its responsibilities in accordance with its terms of reference for the reporting period;
 - 3.7.3.7 a statement as to whether the committee is satisfied that the external auditor is independent of the company. The statement should specifically address:
 - 3.7.3.7.1 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;
 - 3.7.3.7.2 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;
 - 3.7.3.7.3 the rotation of the designated external and audit partner;

¹⁷ Principles 8(50)(a)to(f) & 8(59) of King IV – disclosure requirements

- 3.7.3.7.4 significant changes in the management of the company during the external audit firm's tenure which may mitigate the attendant risk of familiarity between the external auditor and management;
- 3.7.3.8 significant matters that the committee has considered in relation to the annual financial statements, and how these were addressed by the committee;
- 3.7.3.9 the 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;
- 3.7.3.10 the committee views on the effectiveness of the internal audit manager and the arrangement for internal audit;
- 3.7.3.11 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;
- 3.7.3.12 the committee's view on the effectiveness of the financial director and the finance function; and
- 3.7.3.13 the arrangements in place for combined assurance and the committee's views on its effectiveness.

3.8 **Other matters**

The committee shall:

- 3.8.1 have reasonable access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;¹⁸
- 3.8.2 be provided with appropriate and timely training, both from an induction programme for new members and on an on-going basis;
- 3.8.3 give due consideration to laws, regulations and any published guidelines or recommendations as appropriate;
- 3.8.4 oversee any investigation of activities which are within these terms of reference;
- 3.8.5 arrange for biennial review of its own performance;¹⁹
- 3.8.6 at least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval;²⁰ and
- 3.8.7 form and delegate authority to sub-committees or to one or more designation members of the committee.

¹⁸ Principle 8(43)(f) of King IV – the committee's access to resources and information

¹⁹ Principles 8(43)(h) & 9(74) of King IV – evaluating the committee's performance

²⁰ Principle 8(42) of King IV – formal terms of reference should be approved and reviewed annually by the board

3.9 **Authority**²¹

The committee is authorised:

- 3.9.1 to obtain any information it requires from any employee/director of the company in order to perform its duties;
- 3.9.2 to obtain, at the company's expense, outside legal or otherwise professional advice on any matters within these terms of reference; and
- 3.9.3 to request the attendance of any executive, senior management or employee at a meeting of the committee as and when required.

4. **ADMINISTRATION OF THE TERMS OF REFERENCE**

The custodian of this terms of reference is the Group Company Secretary who will be responsible for its administration, revision, interpretation and application of this terms of reference. Any alteration to these terms of reference are subject to approval by the board.

These terms of reference were approved by the board on **2 August 2017** and becomes effective immediately on approval.

²¹ Principle 8(43)(c) of King IV – delegation of authority with respect to decision-making



AUDIT COMMITTEE WORK PLAN FOR THE 2018 FINANCIAL YEAR

To be read in conjunction with the committee's terms of reference:

ITEM	ACTION	NOV	MAY	AUG	RP
1.	FORMALITIES	✓	✓	✓	-
2.	FINANCIAL REPORTING				
2.1	Review the Financial Directors Report for the period under review	✓	✓	✓	MWG
2.2	Review the Results for the Period under review	✓	✓	✓	MWG
2.3	Review and recommend to the board for approval the Annual Financial Statements for the past year	✓	-	-	MWG
2.4	Review and recommend to the board for approval the Press Release/SENS Announcement	✓	✓	-	MWG
2.5	Review and recommend to the board the Going Concern Status	✓	✓	-	MWG
2.6	Review and recommend to the board the Declaration of Final/Interim Dividend	✓	✓	-	MWG
2.7	Assessment of the Financial Director and the Finance Function (<i>King IV recommendation</i>)	✓	-	-	-
3.	COMBINED ASSURANCE				
3.1	Review the Combined Assurance Plan	-	✓	✓	SN/KJO'B
4.	INTERNAL AUDIT				
4.1	Review the Internal Audit Report for the period under review	✓	✓	✓	SN
4.2	Review the Internal Audit Charter for the period under review and recommend it to the board for approval	-	-	✓	SN
4.3	Ensure that the internal audit function is subject to a Quality Assurance Review <small>(Per item 1.5.11 of the minutes of the meeting held on 4 August 2015, a QAR was to be undertaken in 2017)</small>	-	-	✓	SN
4.4	Internal Audit Effectiveness Assessment	✓	-	-	Cosec
5.	EXTERNAL AUDIT				
5.1	Review the External Audit Report for the period	✓	✓	✓	Deloitte

ITEM	ACTION	NOV	MAY	AUG	RP
	under review				
5.2	Review the External Auditor Terms of Engagement, plan and remuneration for the coming year	-	-	-	-
5.3	Review the IT Computer Audit Plan	✓	-	-	DELOITTE
5.4	Review the IT Computer Audit Summary	-	-	✓	DELOITTE
5.5	Review the External Auditors Independence	✓	-	-	DELOITTE
6.	INTEGRATED REPORTING				
6.1	Review the Annual Integrated Report	✓	-	-	COSEC
7.	CORPORATE GOVERNANCE				
7.1	Review Compliance Report for the period under review	✓	✓	✓	COSEC
7.2	Review its Terms of Reference and Work Plan	-	-	✓	COSEC
7.3	Review the Committee's Performance	-	-	✓	COSEC
8.	POLICIES	when required			COSEC
9.	LEGAL MATTERS	✓	✓	✓	COSEC
10.	ASSURANCE				
10.1	Review the Minutes of the various Committee meetings held during the period	✓	✓	✓	COSEC
11.	OTHER				
11.1	Assessment of leases and the grading thereof	-	-	✓	MWG
11.2	Whistle-blowing Complaints and/or Industry Complaints	✓	✓	✓	MWG/ COSEC
11.3	Noting of Meeting Dates for the ensuring year	✓	-	-	COSEC
12.	GENERAL	✓	✓	✓	-
13.	NEXT MEETING	✓	✓	✓	-
14.	MEETING WITH INTERNAL AND EXTERNAL AUDITORS	✓	-	-	CFW

Policies to be reviewed by the Committee

Policies are to be reviewed every three years or when required.

POLICY	LAST APPROVED	NEXT REVIEW
Group's delegation of authority policy	2 Aug 2016	13 Nov 2017
Group fraud policy	July 2011	13 Nov 2017