



("the Company")

TERMS OF REFERENCE

AUDIT, RISK AND COMPLIANCE COMMITTEE

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1. Introduction

- 1.1 The Audit, Risk and Compliance Committee (“the ARC Committee”) is constituted as a statutory committee of the Company, in respect of its statutory duties in terms of section 94 (7) of the Companies Act, 2008 (“the Act”), and the JSE Listings Requirements (“the LR”).
- 1.2 The Company combines the Audit, Risk and Compliance Committees into one Committee (“the ARC Committee” or “the Committee”) which complies with all statutory regulations as well as being cognisant of risk and governance as required in terms of King IV.
- 1.3 Principle 8 of King IV clarifies the objectives of delegating the Board of Directors (“the Board”), responsibilities to the various committees of the Board, which promote independent judgement, assisting with the balance of power and the duties of the Board. These objectives set out the composition and rotation of membership, the overall role and associated responsibilities of the committee, the delegated authorities (including the extent of the committee’s decision-making powers), tenure, resources and access to information and meeting procedures.
- 1.4 It is noted that the Committee is also considered a committee of the Board in terms of Section 72 of the Act, in respect of other duties assigned to it by the Board. The duties and 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 Board members, who cannot abrogate their fiduciary duties and responsibilities. Board members must continue to exercise due care and judgement in accordance with their statutory obligations.
- 1.5 These Terms of Reference are subject to the provisions of the Company’s Memorandum of Incorporation (“MOI”), any other applicable law or regulatory provision, and the Board Charter.

2. Purpose of the Terms of Reference

The purpose of these Terms of Reference is to set out the Committee's role and responsibilities as well as the requirements for its composition, meetings and other procedures.

3. Composition

- 3.1 The ARC Committee comprises at least three independent non-executive directors, elected individually each year at the Annual General Meeting of the Company, on recommended by the Board.
- 3.2 The Chairperson of the Board is not eligible to be the Chairperson of the ARC Committee, however in terms of the LR, the Chairperson of the Board may be a member of the Committee.

- 3.3 The Chief Executive Officer (CEO) and other executives may not be a member and/or Chairperson of the Committee but may attend meetings by invitation.
- 3.4 The Committee is chaired by an independent non-executive Board member. The Board shall appoint the Chair of the Committee from amongst the independent non-executive directors.
- 3.5 The members of the Committee must collectively have sufficient qualifications and experience to fulfill their 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; and governance processes within the company.
- 3.6 The Board must fill vacancies on the Committee within 40 business days after the vacancy arises.
- 3.7 Board recommendations for annual appointment of members should have regard to the fact that members should at least serve a two-year term of office.

4. Role

- 4.1 The Committee has an independent role with accountability to both the Board and shareholders.
- 4.2 The Committee does not assume the functions of management, which remains the responsibility of the executive directors, officers, and other members of senior management.
- 4.3 The Committee's primary role is to provide independent oversight in the following:
- 4.3.1 To promote the overall effectiveness of corporate governance in accordance with the King Code on Corporate Governance;
 - 4.3.2 To provide a forum for the management and representatives of the external and internal audit functions to resolve issues which arise from all external and internal audit activities;
 - 4.3.3 To nominate the appointment of an independent JSE approved external auditor to the board, and to determine the fees and terms of engagement of the external auditor;
 - 4.3.4 To confirm the independence of the external auditor in terms of the Companies Act and King IV;
 - 4.3.5 To determine and pre-approve any non-audit services that the external auditor might provide to the company or to a related company;
 - 4.3.6 To ensure there is a process for the Audit and Risk Committee to be informed of any reportable irregularities (as identified in the Auditing Profession Act 2005) as identified and reported by the external auditor;
 - 4.3.7 To review the quality and effectiveness of the external audit process;
 - 4.3.8 To prepare a report each year to be included in the group's annual financial statements describing how the audit committee carried out its functions during the year under review. This report, in terms of the LR Section 3.84(c) is to be based on an apply or explain basis, with a brief

- description of the committee mandates, the number of meetings held, and other relevant information being disclosed;
- 4.3.9 In terms of LR Section 3.84(g), and in addition to its duties in terms of the Act -
- (a) To consider, on an annual basis, and satisfy itself of the appropriateness of the expertise and experience of the Financial Director. The issuer must confirm this by reporting it to the shareholders in its annual report that the audit committee has executed this responsibility; and
 - (b) To ensure that the issuer has established appropriate financial reporting procedures and that these procedures are operating.
- 4.3.10 In terms of LR Section 3.84(g)(ii), to ensure that the group has established appropriate financial reporting procedures and that those procedures are operating, including consideration of the group structure of the issuer to ensure that the Committee has access to all the financial information of the issuer, to allow the issuer to effectively prepare and report on the financial position of the issuer.
- 4.3.11 In terms of LR Section 3.84(g)(iv), to ensure, notwithstanding section 90(6) of the Companies Act, that a resolution is tabled at the annual general meeting of the issuer regarding the appointment of the auditor.
- 4.3.12 In terms of LR Section 3.84(k), to ensure that the Group CEO and Financial Director have disclosed to the Committee and the auditors all significant deficiencies in the design and operation of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.
- 4.3.13 To add relevant items to the King IV application register of the Company (used to indicate a narrative account of the application of the required principles) in relation to the following Principles:
- (a) Committees of the Governing body;
 - (b) Delegation to Management;
 - (c) Risk and opportunity governance;
 - (d) Technology and Information governance;
 - (e) Compliance governance;
 - (f) Assurance; and
- ensure that the application register is reviewed each year and approved by the board.
- 4.3.14 To make submissions to the Board on any accounting policies, financial controls, records or reporting of the Company;
- 4.3.15 To review and approve the annual financial statements, interim reports, trading updates and related disclosures and other significant announcements made by the group, making the necessary recommendations to the board;
- 4.3.16 To consider the appropriateness of the group's accounting policies;
- 4.3.17 To monitor and supervise the effective functioning of the internal audit function, to ensure that the roles of both internal and external audit are clear to provide an objective overview of the operational effectiveness of the group's systems of internal control and reporting;
- 4.3.18 To monitor the risk profile as determined by management, and make recommendations on the composition and classification of the risk profile for the group, and to review the adequacy of insurance coverage and disaster recovery and business resumption plans;

- 4.3.19 To review the risk register of the company at regular intervals and to continually update the risk register when required;
 - 4.3.20 To assist the Board in setting appropriate boundaries for risk-taking, which is the core function of risk appetite and risk tolerance determination;
 - 4.3.21 To obtain representations from management, and make the necessary enquiries from external and internal audit and of management, on any matters under litigation, to ensure compliance with material aspects of legislation and create awareness of pending changes to legislation;
 - 4.3.22 To manage Information and Technology advances as detailed in Principle 12 of King IV;
 - 4.3.23 To assess the Combined Assurance model;
 - 4.3.24 To oversee the reliability and integrity of the integrated report;
 - 4.3.25 To review the group's strategic plan and strategic management process.
- 4.4 The Committee also plays an integral role in the risk oversight process insofar as it impacts on assurance processes and integrated reporting. It is therefore imperative that the Committee understands risk from the perspective of it forming the basis of combined assurance and audit plans to be approved.

5. Duties and responsibilities

5.1 *Integrated annual reporting*

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

- 5.1.1 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 judgments 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;
- 5.1.2 specifically consider the group structure of the Company (as an issuer) to ensure that the Committee has access to all the financial information of all the entities included in the consolidated group IFRS financial statements, to ensure effective preparation and report on the Company's financial statements;
- 5.1.3 ensure that a disclosure of material risks is included in the annual financial statements;
- 5.1.4 review the annual financial statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any other intended release of price-sensitive information and prospectuses, trading statements and similar documents;
- 5.1.5 comment in the annual financial statements on the financial statements, the accounting practices, and the effectiveness of the internal financial controls;
- 5.1.6 review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- 5.1.7 recommend to the Board the engagement of an external assurance provider on material sustainability issues;
- 5.1.8 recommend the integrated report for approval by the Board;
- 5.1.9 consider the frequency for issuing interim results;
- 5.1.10 consider whether the external auditor should perform assurance procedures on the interim results;

- 5.1.11 review the content of the summarised information for whether it provides a balanced view; and
- 5.1.12 engage the external auditors to provide assurance on the summarised financial information.
- 5.1.13 Take cognisance of the following King IV recommendations:
 - (a) King IV recognises the need for company’s oversight bodies to consider their value creation and preservation story within the context of the 6 capitals (as introduced in the Framework). The Code has reaffirmed the importance of the ability to manage and monitor performance, risk and opportunities across the six capitals through the company’s business model while taking key stakeholder consideration into account.
 - (b) King IV introduces the importance of the combined assurance model in achieving credibility over the Integrated Reporting process and outcome. The assurance over external reporting has been highlighted within King IV and the responsibility of the Board/audit committee to provide the necessary oversight over this process. King IV specifically addresses assurance over reporting that is not regulated.

5.2 Combined assurance

The Committee will establish a combined assurance model as recommended in King IV, and oversee the implementation of combined assurance, based on the following:

- 5.2.1 King IV has refined the concept and requirements of combined assurance by introducing the five-level integrated Combined Assurance Model. The model introduces the concept of horizontal and vertical relationships with reference to the depth and reach of the assurance provider. The model activities are coordinated to allow the matrix of assurance providers to enable effective control environment and integrity of reports.
- 5.2.2 King IV recommends that the audit committee should establish the combined assurance model, as well as oversee the implementation of the combined assurance. The audit committee should oversee the scope of the model as informed the material risks and opportunities. The lines of defence are separated by the level of risk ownership as well as the level of independence of assurance provider. Internal audit for example has been separated from external audit in terms of the levels of independence to the management of risk and control.
- 5.2.3 The integrated combined assurance model has been allocated specific objectives within the King IV Code, primarily to assist the Board in assessing the adequacy and effectiveness of the internal control environment and assessing the integrity of the information used for reporting and decision-making. The combined assurance model and the components therein will therefore need to not only align the internal risk and control components but will need to consider external stakeholder reporting.
- 5.2.4 Through the combined assurance model greater emphasis will be placed on providing assurance of the reliability of external reporting, i.e. primarily the Integrated Report. King IV requires the Board to apply its mind to this. The ability of the combined assurance model to provide this level of assurance will greatly depend on the effectiveness of such a model. The Committee will ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and the Committee should:
 - (a) ensure that the combined assurance received is appropriate to address all the significant risks facing the company; and
 - (b) monitor the relationship between the external assurance providers and the company.

5.3 Risk evaluation of Information and Technology

5.3.1 The Committee is aware that -

- (a) King IV has recognised that information can be separated from technology, whereby technology is a corporate asset included in intellectual capital and governance structures need to protect and enhance this asset. Technology is defined as the way to access, protect, and manage information, and the disruptive nature of technology highlights the significant risk posed to companies.
- (b) The Board is responsible for governing both information and technology to ensure these support the company in achieving its strategic objectives, and also responsible for approving and overseeing the technology and information policies of the company.
- (c) The ARC Committee assist the Board in this role.

5.3.2 The Committee will therefore oversee policies in relation to:

- (a) Compliance with relevant laws;
- (b) Assessing return on investment in technology;
- (c) Risk oversight of outsourced technology services;
- (d) Providing for business resilience, continuity, and disaster recovery;
- (e) Information security and protection against cybercrime;
- (f) Records management;
- (g) Information privacy;
- (h) Data quality; and
- (i) Disclosure on the structures and processes for information and technology.

5.4 Internal audit

The Committee is responsible for overseeing of internal audit processes, and the Committee must:

- 5.4.1 be responsible for the appointment, performance assessment and/or dismissal of the Internal Auditor;
- 5.4.2 approve the internal audit plan;
- 5.4.3 ensure that the internal audit function is subject to an independent quality review, as and when the Committee determines it appropriate.

5.5 Risk management

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

- 5.5.1 Oversee the development and annual review of the risk management policy and strategy and recommend these for approval by senior management and the Board;

- 5.5.2 Monitor the implementation of the policy and strategy for risk management taking place by means of risk management systems and processes;
- 5.5.3 Make recommendations to the Board concerning the levels of tolerance and appetite and monitor that risks are managed within the levels of tolerance and appetite as approved by senior management and the Board;
- 5.5.4 Oversee that the risk management strategy is widely disseminated throughout the company and integrated into the day to day activities of the Company;
- 5.5.5 Ensure that risk management assessments are performed on a continuous basis;
- 5.5.6 Review the company's risk identification and assessment framework and methodologies to obtain reasonable assurance of the completeness and accuracy of the risk register;
- 5.5.7 Evaluate the effectiveness and appropriateness of the mitigating strategies considered and implemented by management to address the material risks of the Company;
- 5.5.8 Ensure that continuous risk monitoring by management takes place;
- 5.5.9 Report to the Board any material changes to the risk profile of the company;
- 5.5.10 Review the fraud prevention policy and recommend for approval by senior management;
- 5.5.11 Evaluate the effectiveness of the implementation of the fraud prevention policy;
- 5.5.12 Review any material findings and recommendations by assurance providers on the system of risk management and monitor that appropriate action is taken to address the identified weaknesses;
- 5.5.13 Develop goals, objectives, and key performance indicators for the Committee for approval by senior management and the Board;
- 5.5.14 Develop goals, objectives, and key performance indicators to measure the effectiveness of the risk management activity;
- 5.5.15 Express the Committee's formal opinion to the Board on the effectiveness of the system and processes of risk management;
- 5.5.16 Review reporting concerning risk management that is to be included in the integrated report for it being timely, comprehensive, and relevant.

5.6 Reporting

- 5.6.1 The Committee shall prepare a report on its role and responsibilities and the actions it has taken to discharge those responsibilities for inclusion in the annual report and accounts. Such a report should specifically include:
 - (a) A summary of the role of the Committee;
 - (b) the names and qualifications of all members of the Committee during the period;
 - (c) the number of Committee meetings and attendance by each member; and
 - (d) the way the Committee has discharged its responsibilities.
- 5.6.1 Where disagreements between the Committee and the Board cannot be resolved, the Committee shall report such an issue to the shareholders as part of the report on its activities in the company's annual report.

- 5.6.2 If the Board does not accept the Committee's recommendation regarding the appointment, reappointment and removal of the external auditor, the Committee shall include a statement explaining its recommendation and reasons why the Board has taken a different stance in the annual report.
- 5.6.3 The Committee Chairperson shall attend the AGM and shall answer questions, through the Chairperson of the Board, on the Committee's activities and its responsibilities.

6. Authority

- 6.1 The Committee acts in accordance with its statutory powers and the delegated authority of the Board as recorded in these Terms of Reference. It has the power to investigate any activity within the scope of its Terms of Reference and mandate.
- 6.2 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 Chairperson of the Committee must be present at all annual general meetings. On all responsibilities delegated to it by the Board outside of the statutory duties, the Committee makes recommendations for approval by the Board.
- 6.3 The Committee, in the fulfillment of its duties, may call upon the Chairpersons of the other Board Committees, any of the executive directors, company officers, company secretary or assurance providers to provide it with information subject to Board-approved process.
- 6.2 The Committee is entitled to reasonable access to the company's records, facilities and employees as is necessary to discharge its duties and responsibilities.
- 6.3 The Committee may form, and delegate authority to, subcommittees, one or more designated members of the Committee and to one or more members of the executive to perform certain tasks on its behalf.
- 6.4 The Committee has the right to obtain independent external professional advice to assist with the execution of its duties, at the company's cost, subject to a Board-approved process.

7. Meetings and Procedures

7.1 Frequency

- 7.1.1 The Committee must hold a minimum of four scheduled meetings per year (to coincide with key dates in the company's financial reporting cycle) shortly before the Board meetings.
- 7.1.2 There should be at least one meeting a year, or part thereof, where the Committee meets the external and internal auditors without executive Board members present.

7.1.3 Meetings in addition to those scheduled may, with the approval of the Chairperson, be held at the request of the external auditor, the internal auditor, the chief executive officer, the financial director or at the instance of the Board, should they deem it necessary.

7.2 Attendance

7.2.1 Executives of the company, representatives of external and internal auditors, other assurance providers, professional advisors, management, and Board members may attend Committee meetings, by invitation only, at the discretion of the Chair, and they may not vote.

7.2.2 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 Chair or Company Secretary.

7.2.3 If the appointed Chair of the Committee is absent from a meeting, the members present must elect one of the members present to act as Chair for the duration of that meeting.

7.2.4 Committee members must be fully prepared for Committee meetings in order to provide appropriate and constructive input on matters discussed.

7.2.5 Committee members may attend meetings in person or via electronic means.

7.2.6 At the commencement of each meeting, all members must declare whether any of them has any conflict of interest in respect of a matter on the agenda.

7.3 Committee Secretary

The Company Secretary shall be the Committee secretary, shall attend all meetings of the Committee and shall ensure that minutes are kept of all meetings.

7.4 Agenda and minutes

7.4.1 The Committee must establish an annual workplan for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year.

7.4.2 The annual plan must ensure proper coverage of the matters laid out in the Terms of Reference: 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 annual plan.

7.4.3 A detailed agenda, together with supporting documentation, must be circulated, at least five working days prior to each meeting to the members of the Committee and other invitees.

- 7.3.3 The minutes must be completed within ten working days after the meeting and circulated to the Committee for review.
- 7.3.4 The minutes must be formally approved by the Committee at its next scheduled meeting.
- 7.3.5 Minutes of the meeting, signed by the Chair, are sufficient evidence that the matters referred to therein have been fully discussed and agreed, whether by way of a formal meeting or otherwise.

7.5 Quorum

- 7.4.1 The quorum for meetings is a majority of members present.
- 7.4.2 Individuals in attendance at Committee meetings by invitation may participate in discussions but do not form part of the quorum for Committee meetings and accordingly may not vote on any matter.

8. Evaluation

- 8.1 The Committee will perform a self-evaluation of its effectiveness every second year and report the results of the self-evaluation to the Board, for appropriate action on any recommendations resulting from the review.
- 8.2 In the years alternate to its self-evaluation years, independent evaluations of the Committee's performance will be conducted, provided that these independent evaluations are aligned with independent Board evaluation cycles and further provided that the independent evaluations are considered necessary and practicable by the Board.
- 8.3 The Board may notwithstanding and at its own discretion elect to have an independent evaluation of the Committee's performance conducted at any time when considered appropriate by the Board.
- 8.4 Factors for assessment should include expertise, inquiring attitude, objectivity, independence, judgment, understanding of the Group's business, understanding of and commitment to the Committee's duties and responsibilities, willingness to devote time needed to prepare for and participate in Committee deliberations, timely responses, and attendance at meetings.

9. Member skills and training

- 9.1 The ARC Committee's effectiveness in performing its role and duties depends on its members' knowledge and competence in business matters, financial reporting, internal controls, and auditing.
- 9.2 Every member should have experience in some area pertinent to the business, and it is preferable that at least one member should be familiar with the group's industry.

- 9.3 The majority of members must preferably have basic financial literacy, i.e. the ability to read and understand fundamental financial statements, including a group's balance sheet, income statement and cash flow statement. At a minimum, one member, usually the chairperson should have a solid background in finance, accounting, or auditing, to be able to act as guide for the Committee during technical discussions.
- 9.4 All members should be adept at communicating with management and the auditors, ready to ask probing questions relating to the group's financial risks and accounting.
- 9.5 Management and independent auditors are sources for the background information and training a Committee member needs. A training programme that enhances the corporate governance, risk management and financial literacy of members should be available, if required. New members should receive a complete orientation that allows them to function effectively from the very beginning.

10. Overlapping of Committees' duties and scope

The Committee recognises that King IV contains recommendations on the duties and scope of committees, and that it remains the responsibility of the Board to align its corporate governance with the Companies Act, JSE Listings Requirements and King IV. The goal would be effective collaboration among committees with minimal overlap of duties and a balanced distribution of power. In the event of an overlap of duties the Board would manage the overlap by setting up a process or policy to govern all the facets thereof and ensure cooperation between different committees.

11. Disclosure of interests and confidentiality

- 11.1 The Committee members are obliged to disclose any interests they have within the organisation or outside the organisation that might interfere with the performance of their duties.
- 11.2 Any Group-related information that comes to light during their performance of duties must be kept confidential. This information can only be disclosed to the Board or any statutory Board on demand.

12. Review of Terms of Reference

These terms of reference will be due for review annually.

13. Approval of Terms of Reference

These Terms of Reference were approved by the Board on 29 March 2022 and will be due for review in March 2023.



SALUNGANO GROUP CHAIRMAN

Date: 29 March 2022