

# **AUDIT AND RISK COMMITTEE CHARTER**

*(V1.2017)*

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Profmed Medical Scheme**

*Reviewed: 11 July 2018 – Audit and Risk Committee  
Approved: 15 August 2018 – Board of Trustees*

## **1. Constitution**

The Board of Trustees has established an Audit and Risk Committee. The Committee is an independent statutory committee approved by the Board of Trustees and which is accountable to the Board.

## **2. Purpose**

- 2.1. The Audit and Risk Committee is an advisory Committee and not an executive Committee. As such it shall not perform any management functions or assume any management responsibilities and shall have an objective, independent role, operating as overseer and maker of recommendations to the Board for its approval or final decision. The Audit and Risk Committee does not relieve the trustees of any of their responsibilities, but assists them to fulfil those responsibilities.
- 2.2. An objective of the Audit and Risk Committee is to assist the trustees to discharge their duties in ensuring the integrity of integrated reporting and reviewing the effectiveness of the financial reporting process, the system of internal control and management of risks, the assurance process, and the Scheme's process for monitoring compliance with laws and regulations and its own code of business conduct.
- 2.3. With regard to risk, the objective is to assist the Board with oversight of an effective policy and plan for risk management. This will enhance Profmed's ability to achieve its strategic objectives and the comprehensive, timely and relevant disclosure regarding risk.
- 2.4. In performing its duties, the Committee will maintain effective working relationships with the Board of Trustees, management, and the internal and external auditors.
- 2.5. To perform his or her role effectively, each Committee member must familiarise themselves with the detailed responsibilities of Committee membership as well as the medical scheme industry, Scheme's business, operations and risks.

## **3. Authority**

- 3.1. It has the authority to execute the Committee's statutory obligations in terms of the Medical Schemes Act and the Scheme's voluntary acceptance of King IV.
- 3.2. The Board of Trustees authorises the Audit and Risk Committee, within the scope of its responsibilities, to:
  - 3.2.1. obtain any information that it requires from any employee or administrator and other contracted service providers of the Scheme and all employees are directed to co-operate with any request made by the Audit and Risk Committee;
  - 3.2.2. obtain any information that it requires from external parties;
  - 3.2.3. investigate any activity within its terms of reference;
  - 3.2.4. obtain outside legal or independent professional advice after following the Scheme's procurement policies and procedures (the cost of which will be carried by the Scheme) and such advisors may, at the request of the Committee, attend meetings as necessary; ensure the attendance of Scheme officers at meetings as appropriate; and

- 3.2.5. access the Scheme's records, facilities and any other resources necessary to discharge its duties and responsibilities.

#### **4. Membership**

- 4.1. The Committee and the Chairman shall be appointed by the Board of Trustees. The Committee shall consist of five members of which two members shall be members of the Board of Trustees. The remaining three members of the Committee, including the Chairman, shall not be officers or employees of the Scheme or the administrator, the controlling company of the administrator or any subsidiary of the administrator's controlling company.
- 4.2. When the Chairman is not available to chair the Audit and Risk Committee meeting, the members present will elect a member to chair the meeting, provided that an independent member chairs the meeting.
- 4.3. Audit and risk Committee members shall be free from any business or other relationship which could materially interfere with the exercise of their independent judgement as an Audit and Risk Committee member.
- 4.4. Each member should be capable of making a valuable contribution to the Committee. The Board should evaluate whether the Committee collectively has sufficient qualifications and experience to fulfil its duties. Audit and risk Committee members must keep up-to-date with developments affecting the required skills-set.
- 4.5. The quorum for the transaction of business shall be three members of the Audit and Risk Committee, representative of trustees and independent members, present throughout the meeting of the Committee. The majority of the members in attendance must be independent of the Board.
- 4.6. The duration of membership of the Audit and Risk Committee shall be a one (1) year term, but members may be re-appointed.
- 4.7. Vacancies on the Audit and Risk Committee must be filled by the Board within forty (40) business days after the vacancy arises.
- 4.8. The appointment of alternatives or proxies to act for or on behalf of Committee members is not permitted.

#### **5. Role of the Chairman**

The Chairman must:

- 5.1. be appointed by the Board annually;
- 5.2. participate in setting and agreeing the agenda of the Committee in conjunction with the Principal Officer;
- 5.3. review and approve the Audit and Risk Committee minutes prior to distribution. The minutes must be formally approved by the Audit and Risk Committee at its next scheduled meeting;
- 5.4. submit a report to the Board of Trustees after each meeting of the Audit and Risk Committee;

- 5.5. attend the Board meeting at which the annual financial statements are approved, or another independent member of the Committee must attend in his stead;
- 5.6. attend the annual general meeting to answer questions, through the Chairman of the Board, on the report of the Audit and Risk Committee's activities and responsibilities, or another independent member of the Committee must attend in his stead;
- 5.7. ensure that he or she is properly briefed on the technical aspects to enable him or her to report to the Board and members at the annual general meeting.
- 5.8. be responsible for the smooth running of meetings, ensuring that the views of each member are heard and that sufficient time is devoted to each issue for discussion;
- 5.9. call *ad hoc* or special committee meetings whenever he or she deems it necessary, in consultation with the Principal Officer.

## **6. Attendance at Meetings**

- 6.1. The Audit and Risk Committee shall, at their entire discretion, be entitled to invite any person to attend and be heard at meetings of the Audit and Risk Committee. Persons attending by invitation only may participate in discussions but may not vote and do not form part of the quorum for Audit and Risk Committee meetings.
- 6.2. The Principal Officer, and where applicable, a representative of the third party administrator, head of internal audit and a representative of the external auditors and any other officials, whose attendance is considered necessary shall attend meetings at the invitation of the Committee. Legal or other advisers, who may have meaningful input to the Audit and Risk Committee's activities, can be requested to attend meetings as and when needed.
- 6.3. The Chairman of the Board of Trustees and other Board of Trustees' members must attend if requested by the Committee.
- 6.4. At least once a year, the Committee shall meet with the internal and external auditors separately without management of the Scheme and the administrator being present.
- 6.5. At least once a year, the Committee shall meet with management of the Scheme and the administrator separately without the internal and external auditors being present.
- 6.6. The Chairman of the Audit and Risk Committee shall excuse from the meeting or from any item on the agenda, any trustee, member or representatives, who could, in his opinion, have any conflicts of interest. Members of the Audit and Risk Committee shall declare upfront any conflict of interest. The Chairman shall also delegate his or her position to any other member should he or she have any conflict of interest in matters discussed, and shall exclude himself or herself from the agenda item.
- 6.7. The secretary of the Committee shall be appointed by the Principal Officer.

## **7. Frequency of Meetings**

- 7.1. Meetings of the Committee will be held as frequently as the Committee considers appropriate (convened by the Chairman of the Committee). It will normally meet not less than three times a year, and where appropriate shall coincide with key dates in the Scheme's financial reporting cycle. Sufficient time should be allowed between Audit and Risk Committee meetings and Board of Trustees meetings to allow any work arising from the Audit and Risk Committee meeting to be carried out and reported to the Board of Trustees as appropriate.
- 7.2. The Board of Trustees or any member thereof, including members of the Committee, the external auditors, or internal auditors may request a meeting if they consider that one is necessary.

## **8. Proceedings at Meetings**

- 8.1. The proceedings of all meetings will be minuted.
- 8.2. The minutes of Audit and Risk Committee meetings shall be confirmed at the next meeting of the Committee. The minutes of all Audit and Risk Committee meetings shall be submitted to and be considered by the Board.
- 8.3. In respect of voting at meetings:
  - 8.3.1. a decision agreed upon by the majority of the members present at any meeting of the Audit and Risk Committee shall constitute a decision of the Audit and Risk Committee;
  - 8.3.2. persons attending by invitation may not vote; and
  - 8.3.3. in the event of an equality of votes regarding any matter, the Chairman of the Audit and Risk Committee shall have a casting vote in addition to his or her deliberative vote.
- 8.4. The Audit and Risk Committee must establish an annual work plan to ensure that all relevant matters are covered by the agendas of the meetings planned for the year.
- 8.5. The Principal Officer shall agree with the Chairman of the Audit and Risk Committee the contents of the agenda for each meeting. Meeting agendas shall be prepared and distributed one week prior to meetings together with sufficient background information to enable the Audit and Risk Committee members to appropriately prepare for the meetings. Audit and risk Committee papers should be concise, relevant and shall be distributed sufficiently in advance of meetings. The secretary shall accurately record the proceedings and decisions taken. Minutes shall be distributed to all Committee members after the preliminary approval by the Chairman of the Audit and Risk Committee.
- 8.6. Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the rules of the Scheme regulating the meetings and proceedings of trustees and Committees.
- 8.7. The Chairman shall have the right and obligation to make a ruling on any procedural issue or emerging question for which no rule or precedent exists.

## **9. Responsibilities**

The responsibilities of the Committee shall be:

### **9.1. Integrated Reporting**

#### **9.1.1. General**

- 9.1.1.1. Oversee integrated reporting. Have regard to all factors and risks that may impact on the integrity of the annual integrated report;
- 9.1.1.2. gain an understanding of all significant actual or potential financial and nonfinancial risks (such as operational, strategic and regulatory) that may have implications on the annual integrated report and how management is managing these effectively;
- 9.1.1.3. understand which key performance indicators are reported and the assurance to be provided on any of them; and
- 9.1.1.4. understand how the Board and the external auditor (and any other relevant external assurance provider) evaluate materiality for integrated reporting purposes. Carefully review strategic statements of financial or sustainability information to ensure that the information provides a proper appreciation of the key drivers that will enable the Scheme to achieve these strategic goals.

### **9.2. Sustainability**

- 9.2.1. Recommend to the Board to engage an external assurance provider on material sustainability issues. The Audit and Risk Committee should evaluate the independence and credentials of the external assurance provider.
- 9.2.2. Review the disclosure of sustainability issues in the annual integrated report to ensure that they are reliable and do not conflict with the financial information.

### **9.3. Internal Control**

- 9.3.1. Evaluate whether management is setting the appropriate “control culture” by communicating the importance of internal control and ensuring that all employees have an understanding of their roles and responsibilities.
- 9.3.2. Consider the effectiveness of the Scheme’s internal control system, including information technology security and control. Assess whether management has controls in place for unusual types of transactions and any potential transactions that may involve an unacceptable degree of risk.
- 9.3.3. Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown.
- 9.3.4. Gain an understanding of whether internal control recommendations made by internal and external auditors have been implemented by management.

#### 9.4. Financial Reporting

- 9.4.1. Consider with the internal and external auditors any fraud, illegal acts, deficiencies in internal financial controls or other similar issues as they relate to financial reporting.
- 9.4.2. Have oversight of IT risks as they relate to financial reporting.
- 9.4.3. Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- 9.4.4. Ask management and the internal and external auditors about significant risks and exposures and the plans to minimise such risks.
- 9.4.5. Review any legal matters which could significantly impact the financial statements.

#### 9.5 Annual Financial Statements

- 9.5.1 Review and comment on the annual financial statements included in the annual integrated report and determine whether they are complete and consistent with the information known to Committee members; assess whether the financial statements reflect appropriate accounting principles, best practices and standards and that IFRS developments are considered.
- 9.5.2 Discuss the initial selection of or changes in significant accounting policies used in preparing the financial statements, the reason for and impact of any changes in policy, and reasons why alternative treatments were not adopted, understanding regulatory and market reaction before granting approval.
- 9.5.3 Be informed when there is a disagreement on auditing or accounting matters between management and the external auditors. When an accounting opinion has been requested from another external auditor, the reasoning for the accounting treatment adopted shall be obtained and approved by the Audit and Risk Committee before the Committee's recommendation is made to the Board. The Audit and Risk Committee should also be satisfied with the credentials of the person providing such an opinion. Pay particular attention to complex and unusual transactions such as restructuring charges and derivative disclosures.
- 9.5.4 Focus on judgemental areas, for example those involving valuation of assets and liabilities, litigation, reserves, and other commitments and contingencies.
- 9.5.5 Meet with management and the external auditors to review the financial statements and the results of the audit.
- 9.5.6 Review a documented assessment prepared by management of the going concern status of the Scheme. To enable the Audit and Risk Committee to conduct a thorough discussion, management shall document the key assumptions in reaching their conclusions.

- 9.5.7 Review the other sections of the annual integrated report before its release and consider whether the information is understandable and consistent with members' knowledge about the Scheme and its operations.
- 9.5.8 Recommend the annual financial statements for approval to the Board.
- 9.6 Trustees' Responsibility Statement
  - 9.6.1 Review the trustees' responsibility statement to be included in the annual financial statements, including the statement on effectiveness of the systems of internal control, prior to publication, and in particular to review:
    - 9.6.1.1 the procedures for identifying financial risks and controlling their impact on the Scheme;
    - 9.6.1.2 the Scheme's policies and procedures for preventing or detecting fraud;
    - 9.6.1.3 the Scheme's policies and procedures for ensuring compliance with relevant regulatory and legal requirements;
    - 9.6.1.4 the Scheme administrator's representations to the Board in regard to the fair presentation of the trustees' responsibility statement.
- 9.7 Corporate Governance
  - 9.7.1 To review and monitor the corporate governance practices, in particular the ethical conduct of the Scheme, its trustees and officials by:
    - 9.7.1.1 reviewing any code of ethical standards prior to its publication and making recommendations to the Board in this regard;
    - 9.7.1.2 receiving reports from the administrators, the Principal Officer and/or trustees of material fraud or irregularities identified;
    - 9.7.1.3 considering any violations of ethical conduct or activity;
    - 9.7.1.4 considering non-compliance with the law and all applicable statutes and regulations;
    - 9.7.1.5 reviewing the Scheme's risk management assessment;
    - 9.7.1.6 considering other topics, as defined by the Board of Trustees.
- 9.8 Combined Assurance
  - 9.8.1 Ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities to address all the significant risks facing the Scheme for purposes of completeness of coverage, reduction of redundancy and effective use of resources.
  - 9.8.2 Monitor the relationship between external auditors and the Scheme.

## 9.9 External Audit

- 9.9.1 Consider the appointment of the external auditor and assess the independence of the external auditor.
- 9.9.2 Oversee the process for selecting the external auditor and make appropriate recommendations through the Board of Trustees to the members to consider at the annual general meeting.
- 9.9.3 Ensure that the name of the individual registered auditor who undertakes the audit has been specified in the terms of the engagement and the appointment of the auditor has been approved by the Registrar of Medical Schemes.
- 9.9.4 Discuss with the external auditor, before the audit commences, the engagement letter, the nature and scope of the audit and ensure no unjustified restrictions or limitations have been placed on the scope.
- 9.9.5 Review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- 9.9.6 Review the external auditor's management letter and the response of the administrators, Principal Officer and trustees (as appropriate).
- 9.9.7 Review the external auditor's audit report as well as the quality and effectiveness of the external auditor.
- 9.9.8 Monitor and report on the independence of the external auditor.
- 9.9.9 Recommend the audit fee to the Board of Trustees and pre-approve any fees in respect of non-audit services provided by the external auditor and ensure that the provision of non-audit services does not impair the external auditor's independence or objectivity.
- 9.9.10 Upon termination of the auditor's appointment for any reason, including resignation, ensure that the auditor has submitted to the Registrar a statement with the reasons for the termination.
- 9.9.11 In the event that the auditor would have had reason to submit a report as contemplated in terms of section 45 of the Auditing Profession Act, 2005, the Audit and Risk Committee shall ensure that a copy of such report was submitted to the Registrar.

## 9.10 Internal Audit

- 9.10.1 The Audit and Risk Committee is responsible for assessing the performance of the chief internal audit executive.
- 9.10.2 When making use of the administrator's internal auditor, assess the appropriateness of the arrangement.
- 9.10.3 Approve the internal audit plan. Review the extent of control testing, understanding the degree to which it can be relied on to detect internal control problems or fraud. Review the activities and organisational structure of the internal audit function and ensure no unjustified restrictions or limitations are imposed and that the internal audit function has appropriate standing within the administrator.

- 9.10.4 Evaluate the nature and extent of the formal documented review of the design, implementation and effectiveness of the administrator's internal financial controls and risk management process to be performed by internal audit on behalf of the Board annually.
  - 9.10.5 Weaknesses in internal financial controls that are considered to be material (individually or in combination with other weaknesses) and that resulted in actual material financial loss, fraud or material errors, shall be reported to the Board and stakeholders.
  - 9.10.6 Identify difficulties encountered while conducting audits, including restrictions on the scope of work or access to required information.
  - 9.10.7 Review the effectiveness of the internal audit function, by ensuring that the internal audit function is subject to an independent quality review as and when the Committee determines it appropriate. Meet separately with the chief internal audit executive to discuss any matters that the Committee or auditors believe should be discussed privately.
  - 9.10.8 Ensure that significant findings and recommendations made by the internal auditors are received and discussed on a timely basis to consider the response of the administrators and Principal Officer and trustees (as appropriate) to any internal audit recommendations.
- 9.11 Finance Function
- 9.11.1 Review the expertise, resources and experience of the Scheme's/ administrator's finance function annually and disclose the results of the review in the annual integrated report.
  - 9.11.2 Evaluate the suitability of the expertise and experience of the Principal Officer and recommend to the Board if any changes are necessary.
- 9.12 Risk Management
- 9.12.1 Oversee the development, implementation and annual review of a risk management policy and plan, and recommend them for approval to the Board.
  - 9.12.2 Ensure a register of key and sustainability risks facing the Scheme with responses to address these key risks, is maintained.
  - 9.12.3 Ensure that compliance forms an integral part of the Scheme's risk management process
  - 9.12.4 Ensure that risk management assessments are performed on a continuous basis.
  - 9.12.5 Ensure that frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks.
  - 9.12.6 Ensure that management considers and implements appropriate risk responses.
  - 9.12.7 Ensure that continuous risk monitoring by management takes place.
  - 9.12.8 Express the Committee's formal opinion to the Board on the effectiveness of the system and process of risk management.

### 9.13 Compliance with Laws and Regulations

- 9.13.1. Review the effectiveness of the system for monitoring compliance with laws, regulations and voluntary codes and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance.
- 9.13.2. Obtain regular updates from management regarding compliance matters.
- 9.13.3. Ensure that all regulatory compliance matters have been considered in the preparation of the financial statements.
- 9.13.4. Review the findings of any investigations by regulatory agencies.

### 9.14 Compliance with the Scheme's Code of Conduct

- 9.14.1. Ensure that the Code of Conduct is in writing and that arrangements are made for all employees to be aware of it.
- 9.14.2. Evaluate whether management is setting the appropriate "tone at the top" by communicating the importance of the code of conduct and the guidelines for acceptable behaviour.
- 9.14.3. Review the process for monitoring compliance with the code of conduct and consider any matters that may have an effect on the annual integrated report.
- 9.14.4. Obtain regular updates from management regarding compliance.
- 9.14.5. Approve any amendments to the Scheme's code of conduct.

### 9.15 Reporting and Accountability

- 9.15.1. The Committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the Board of Trustees.
- 9.15.2. Regularly report to the Board on the Committee's statutory duties and duties assigned to it by the Board and make appropriate recommendations.
- 9.15.3. Ensure the Board is aware of matters which may significantly impact the financial condition or affairs of the Scheme.
- 9.15.4. The Committee's duties and activities and remuneration during the year shall be disclosed in the annual financial statements.
- 9.15.5. The Audit and Risk Committee shall make recommendations to the Board concerning the adoption of the annual financial statements and any other matters arising from the above responsibilities.
- 9.15.6. Weaknesses in internal financial controls that are considered to be material (individually or in combination with other weaknesses) and that resulted in actual material financial loss, fraud or material errors, shall be reported to the Board and stakeholders.
- 9.15.7. Recommend the annual integrated report for approval by the Board. As a minimum, the Audit and Risk Committee should provide the following information in the annual integrated report:

- 9.15.7.1. A summary of its role;
  - 9.15.7.2. A statement on whether or not the Audit and Risk Committee has adopted formal terms of reference that have been approved by the Board and if so, whether the Committee satisfied its responsibilities for the year in compliance with its terms of reference;
  - 9.15.7.3. The names and qualifications of all members of the Audit and Risk Committee during the period under review, and the period for which they served on the Committee;
  - 9.15.7.4. Number of Audit and Risk Committee meetings held during the period under review and members' attendance at these meetings;
  - 9.15.7.5. A statement on whether or not the Audit and Risk Committee considered and recommended the internal audit plan to be approved by the Board;
  - 9.15.7.6. A description of the working relationship with the chief internal audit executive;
  - 9.15.7.7. A statement on whether the Audit and Risk Committee complied with its legal, regulatory and other responsibilities; and information about any other responsibilities assigned to the Audit and Risk Committee by the Board;
  - 9.15.7.8. A statement on whether or not the Audit and Risk Committee recommended the annual integrated report to the Board for approval.
- 9.15.8. Include in the annual financial statements, an Audit and Risk Committee report including:
- 9.15.8.1. the Committee's composition and duties;
  - 9.15.8.2. how its duties were carried out;
  - 9.15.8.3. if the Committee is satisfied with the independence of the external auditor;
  - 9.15.8.4. the Committee's view on the financial statements and the accounting practices;
  - 9.15.8.5. whether the internal financial controls are effective; and
  - 9.15.8.6. results of the review of the finance function.
- 9.16 Other Responsibilities
- 9.16.1 Perform other oversight functions as requested by the Board.
  - 9.16.2 Review any other reports issued by the Scheme that relate to Audit and Risk Committee's responsibilities.
  - 9.16.3 Receive and deal appropriately with any concerns or complaints relating to:
    - 9.16.3.1 the accounting practices and internal audit of the Scheme;
    - 9.16.3.2 the content or auditing of the Scheme's financial statements;

9.16.3.3 the internal financial controls of the Scheme; or

9.16.3.4 Any related matter.

9.16.4 If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.

9.16.5 Annually review and update the charter; obtain approval of changes from the Board.

9.16.6 Annually evaluate the Committee's own performance, reporting these findings to the Board.

## **10 Remuneration**

The Board shall decide on the remuneration to be paid to the Chairman and independent members of the Audit and Risk Committee, having taken into account the recommendation of the Remuneration Committee, for services rendered on the Audit and Risk Committee, and which shall be subject to review by the Board annually.