

## **ASTRAL FOODS LIMITED**

### **AUDIT AND RISK MANAGEMENT COMMITTEE MANDATE AND TERMS OF REFERENCE**

*References to “the Committee” shall mean the Company’s Audit and Risk Management Committee.*

*References to “the Board” shall mean the Company’s board of directors. References to “Astral” or “the Company” shall mean **Astral** and its subsidiary companies as contemplated in the Companies Act, 2008.*

#### **1. PURPOSE**

- 1.1. The audit committee (the committee) is constituted as a statutory committee of **Astral** Foods Ltd (the Company) in respect of the statutory duties in terms of section 94(7) of the Companies Act, 2008 and a committee of the board in all other duties assigned to it by the board.
- 1.2. Except with respect to the appointment, fees and terms of engagement of the external auditor, the decisions of the committee do not reduce the individual and collective responsibilities of board members in regard to their fiduciary duties and responsibilities. Members must ensure that they meet the standards of director’s conduct as provided for in section 76 of the Companies Act to act in good faith and for a proper purpose, in the best interest of the company, and with the necessary care, skill and diligence.
- 1.3. This charter is subject to the provisions of the Companies Act and the company’s Memorandum of Incorporation, as well as and any other applicable law or regulatory provision.
- 1.4. 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.
- 1.5. The audit committee is appointed by the shareholders of the company for the primary purpose of assisting the board in:
  - 1.5.1. Ensuring the continued independence of the external auditor.
  - 1.5.2. Overseeing the external audit process.
  - 1.5.3. Applying the combined assurance model to ensure a coordinated ~~audit~~ **approach** to all assurance activities.
  - 1.5.4. Reviewing the expertise, resources and experience of the finance function.
  - 1.5.5. Considering the appropriateness of the expertise and experience of the Chief Financial Officer.
  - 1.5.6. Overseeing the internal audit function.
  - 1.5.7. Oversight of internal controls and financial reporting.
  - 1.5.8. Financial risk assessment and oversight.

- 1.6. Consistent with these functions, the audit committee should encourage continuous improvement of, and should foster adherence to, the company's policies, procedures, and practices at all levels. The audit committee should also provide for open communication among the external auditor, financial and senior management, the internal audit function, and the board of directors.

## **2. MEMBERSHIP**

- 2.1 The committee shall be appointed annually by the shareholders at the annual general meeting and shall comprise at least three members.
- 2.2 The board, through the nominations committee, shall identify and nominate suitably skilled and experienced directors for appointment by the shareholders.
- 2.3 The board shall fill a vacancy on the committee within 40 business days, to be ratified by shareholders at the next annual general meeting.
- 2.4 The audit committee must consist of at least three members.  
Each member of the committee must be a director of the company and not:
  - 2.4.1 be involved in the day to day management of the company for the past financial year.
  - 2.4.2 be a full-time employee of the company for the past 3 financial years.
  - 2.4.3 be a material supplier or customer of the company such that a reasonable and informed third party would conclude in the circumstances that the integrity, impartiality or objectivity of that director is compromised by that relationship, and
  - 2.4.4 be related to anybody who falls within the above criteria.
  - 2.4.5 the nominations section of the human resources, remuneration and nominations committee, at its October / November meeting each year, will recommend to the board the membership of the committee for finalisation by the board at its November meeting. This is necessary to fit in with the February annual general meeting where shareholders will vote on the committee.
- 2.5 All members of the committee shall have general financial knowledge, at least one of whom shall have recent and relevant financial experience. Collectively, the committee should understand all matters that are integral to the company's integrated report.
- 2.6 The board shall appoint the chairman of the committee. In the absence of the chairman of the committee and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 2.7 Only members of the committee shall have the right to vote. However, other individuals such as the Chairman of the board, the Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit and other representatives from the finance department may be invited to attend for all or part of any meeting as and when considered appropriate by the committee.

- 2.8 The external auditors shall be invited to attend meetings of the committee on a regular basis.
- 2.9 The committee chairman should, subject to satisfactory performance and being re-elected as a member of the committee after each annual general meeting of the company, not hold office as the chairman of the committee for a period exceeding 5 consecutive years. While there may be instances in which it is appropriate for an independent non-executive director to serve as chairman of the committee for longer than 5 consecutive years, the reasons therefore should be carefully considered and disclosed by the committee (in conjunction with the Nomination Committee and the board) prior to such re-election.

### **3. SECRETARY**

The company secretary of the company, or its nominee, shall act as the secretary of the committee.

### **4. QUORUM**

The quorum necessary for the transaction of business shall be constituted by a majority of the members of the committee. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.

### **5. FREQUENCY OF MEETINGS**

The committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and additionally as the chairman of the committee considers necessary. The external or internal auditors may request a meeting, if they consider one is necessary, as may any committee member.

These meetings should preferably take place:

- a) Once in May each year to inter alia approve the external auditor's year-end audit plan and review the statutory, governance and other regulatory requirements affecting the committee and its members as well as keeping members up to date on new accounting and related developments, review and recommend to the company's board for approval, the company's interim financial statements for the half year ended 31 March and review the internal and external audit reports;
- b) Once in October of each year to inter alia review and recommend to the company's board for approval, the risk management processes and outcomes affecting the group; and
- c) Once in November of each year to inter alia review and recommend to the company's board for approval, the company's audited financial statements for

the previous financial year ended 30 September.

## **6. NOTICE OF MEETINGS AND AGENDA**

- 6.1 Meetings of the committee shall be convened by the secretary of the committee at the request of the chairman of the committee.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the committee, and any other person required to attend, no later than one week prior to the meeting. Supporting papers shall be sent to committee members, and to other attendees as appropriate, at the same time.
- 6.3 The chairman will approve the agenda for committee meetings and any member may suggest items for consideration.

## **7. MINUTES OF MEETINGS**

- 7.1 The secretary shall minute the proceedings and resolutions of all meetings of the committee, including the names of those present and in attendance.
- 7.2 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. If any conflict of interest exists, the director subject to the conflict shall not participate or vote on the issue giving rise to the conflict.
- 7.3 Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the board, unless a conflict of interest exists, and to the external auditors and the CAE.
- 7.4 The minutes of the committee shall be formally approved at its next scheduled meeting.

## **8. ANNUAL GENERAL MEETING**

- 8.1 Members of the committee will be appointed by the shareholders at the Annual General Meeting.
- 8.2 The chairman of the committee shall attend the Annual General Meetings of the company and be prepared to respond to any shareholder questions on the committee's activities.

## **9. DUTIES**

- 9.1 Independent (External) Audit The committee shall:
  - 9.1.1 consider and make recommendations to the board, to be put to shareholders for approval at the Annual General Meetings of the company, in relation to the appointment, re-appointment and removal of the company's external auditors. The committee shall oversee the selection process for new auditors and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required;

- 9.1.2 ensure that the appointment of the auditor complies with the Companies Act, the Auditing Profession Act and other relevant legislation;
- 9.1.3 oversee the relationship with the external auditors including (but not limited to):
  - 9.1.3.1 determining their remuneration, whether fees for audit or non-audit services;
  - 9.1.3.2 approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 9.1.3.3 assessing their independence and objectivity annually considering relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services, length of audit firm tenure and rotation of the designated auditor;
  - 9.1.3.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditors and the company (other than in the ordinary course of business);
  - 9.1.3.5 agreeing with the board a policy on the employment of former employees of the company's auditors, then monitoring the implementation of this policy;
  - 9.1.3.6 monitoring the auditors' compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
  - 9.1.3.7 assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality procedures;
  - 9.1.3.8 considering the risk of the withdrawal of the company's auditors from the market; and
  - 9.1.3.9 at least annually, obtaining and reviewing a report by the external auditor describing:
    - 9.1.3.9.1 the external auditor's internal quality-control procedures;
    - 9.1.3.9.2 any material issues raised by the most recent internal quality-control review or peer review, or by any inquiry or investigation conducted by governmental or professional authorities during the preceding five years with respect to independent audits carried out by the external auditor, and any steps taken to deal with such issues; and
    - 9.1.3.9.3 all relationships between the external auditor and the company
- 9.1.4 meet regularly with the external auditors, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditors at least once a year, without management being present, to discuss their remit and any issues arising from the audit;

- 9.1.5 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 9.1.6 review the findings of the audit with the external auditors. This shall include but not be limited to, the following:
  - 9.1.6.1 a discussion of the significant audit issues which arose during the audit;
  - 9.1.6.2 a discussion and review of any problems or difficulties with management's response to audit issues, and oversee any disagreements between management and the auditors if they arise;
  - 9.1.6.3 any accounting and audit judgements; and
  - 9.1.6.4 levels of errors identified during the audit.
- 9.1.7 review the effectiveness of the audit process annually.
- 9.1.8 review any representation letter(s) requested by the external auditors before they are signed by management.
- 9.1.9 review the management letter and management's response to the auditors' findings and recommendations.
- 9.1.10 distinguish between audit and non-audit services, and develop and implement a policy on the supply of non-audit services by the external auditors, considering any relevant ethical guidance on the matter.
- 9.1.11 pre-approve the contracts for non-audit services to be rendered by the external auditor and consider whether the auditor's provision of non-audit services is compatible with the auditor's independence
- 9.1.12 recommend to the board to engage an external assurance provider to provide assurance over material elements (such elements should be determined by the relevant committee responsible for overseeing the sustainability reporting) of the sustainability part of the integrated report. The audit committee should evaluate the independence and credentials of this external assurance provider.

## 9.2 Financial Reporting

The committee shall:

- 9.2.1 monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, preliminary results announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain
- 9.2.2 review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature, provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the Listing Requirements of the Johannesburg Stock Exchange
- 9.2.3 ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular:

- 9.2.3.1 ensure that the combined assurance received is appropriate to address all the significant risks facing the company
- 9.2.3.2 support the integrity of information used for internal decision-making by management, the governing body and its committees, and; support the integrity of the organisation's external reports
- 9.2.3.3 monitor the relationship between the external assurance providers and the company
- 9.2.4 understand the scope of the internal and external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management responses.
- 9.2.5 receive and review any disclosure from the company's CEO or CFO made in connection with the certification of the company's quarterly and annual reports of:
  - 9.2.5.1 significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarise, and report financial data.
  - 9.2.5.2 any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal controls.
- 9.2.6 review major issues regarding accounting principles and financial statement presentations, including any significant changes in the company's selection or application of accounting principles; major issues as to the adequacy of the company's internal controls; and any special audit steps adopted in light of material control deficiencies;
- 9.2.7 review analyses prepared by management and/or the external auditor setting forth significant financial reporting issues and judgements made in connection with the preparation of the financial statements;
- 9.2.8 review the effect of regulatory and accounting initiatives, as well as off-balance-sheet structures, on the financial statements of the company
- 9.2.9 assist the board in reviewing the integrated report to ensure that the information is reliable and that it does not contradict the financial aspects of the report.

The committee shall review and challenge where necessary:

- 9.2.10 the consistency of, and any changes to, accounting policies both on a year on year basis and across the company;
- 9.2.11 the methods used to account for significant or unusual transactions where different approaches are possible;
- 9.2.12 whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, considering the views of the external auditors;

- 9.2.13 the clarity of disclosure in the company's financial reports and the context in which statements are made; and
- 9.2.14 all material information presented with the financial statements, such as the operating and financial review, the corporate governance statement (insofar as it relates to the audit and risk management) and the disclosure on sustainability issues (to ensure no conflict with financial information).

### 9.3 Whistle blowing and fraud

The committee shall:

- 9.3.1 review the company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 9.3.2 ensure that there is a process in place to be informed of any reportable irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor; and
- 9.3.3 review the company's procedures for detecting and preventing fraud and bribery and receiving reports on non-compliance.

### 9.4 Internal Audit

The committee shall:

- 9.4.1 monitor and review the effectiveness of the company's internal audit function in the context of the company's overall internal controls and risk management systems, including considering periodic independent quality review of the function as deemed appropriate;
- 9.4.2 approve the appointment and removal of the CAE;
- 9.4.3 consider and approve the remit of the internal audit function and ensure it has adequate resources, skills, qualifications and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 9.4.4 approve the internal audit charter and perform an annual review of the charter, making recommendations for changes if required;
- 9.4.5 review and approve the annual internal audit plan;
- 9.4.6 evaluate the formal review of financial controls conducted annually by the internal audit function on behalf of the board and report to the board and shareholders on the effectiveness of the company's internal controls;
- 9.4.7 review all reports on the company from the CAE, including management's responsiveness to findings and recommendations;
- 9.4.8 meet the CAE at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the CAE shall have the right of direct access to the chairman of

- the board and to the committee; and
- 9.4.9 perform an annual assessment of the internal audit function's responsibility, budget and staffing, with input from the external auditor.

## 9.5 Reporting Responsibilities

- 9.5.1 The chairman of the committee shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.5.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.5.3 The committee shall consider, on an annual basis, and satisfy itself of the appropriateness of the expertise of the chief financial officer (acting as the financial director) and will report to shareholders in the company's Annual Report that it has executed this responsibility.
- 9.5.4 The committee shall compile a report to shareholders on its activities to be included in the company's annual financial statements as proposed by **King IV**.

**King IV** proposes that the following information relating to the functioning of the audit committee is provided (usually as part of the audit committee report in the governance section of the integrated report):

- its overall role and associated responsibilities and functions
- its composition, including each member's qualifications and experience
- any external advisers or invitees who regularly attend committee meetings
- key areas of focus during the reporting period
- the number of meetings held during the reporting period and attendance at those meetings
- whether the committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference
- a statement as to whether the audit committee is satisfied that the external auditor is independent of the organisation.

The statement should specifically address:

- 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
- 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
- the rotation of the designated external audit partner
- significant changes in the management of the organisation during the external audit firm's tenure which may mitigate the attendant risk of familiarity between the external auditor and management.
- significant matters that the audit committee has considered in relation to the annual financial statements, and how these were addressed by the committee
- the audit 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
- the audit committee's views on the effectiveness of the chief audit executive and the arrangements for internal audit
- the audit 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
- the audit committee's views on the effectiveness of the CFO and the finance function
- the arrangements in place for combined assurance and the committee's views on its effectiveness
- commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company.

## 9.6 Other Matters

The committee shall:

- 9.6.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretary of the company for assistance as required.
- 9.6.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 9.6.3 at least once a year, review the appropriateness of the expertise, experience and adequacy of resources of the company finance function.
- 9.6.4 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort.
- 9.6.5 at least once a year, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

## 10. AUTHORITY

The committee derives its authority from the statutory duties as contained in section 94 of the Companies Act, as well as from the delegated authority of the board as contained in this document. The committee is authorised:

- 10.1 to conduct investigations into any matters within its scope of responsibility;
- 10.2 to seek any information, it requires from any employee, officer or director of any company in the company or external party in order to perform its duties;
- 10.3 to obtain, at the company's expense, any outside legal or other professional advice it shall reasonably require in connection with the performance of its duties;
- 10.4 to require the chairmen of the other board committees, any of the executive directors, any officer of the company, company secretary or assurance providers to provide it with information;
- 10.5 to call any employee to be questioned at a meeting of the committee as and when required;
- 10.6 to have the right to publish in the company's integrated report details of any issues that cannot be resolved between the committee and the board; and
- 10.7 to form, and delegate authority to, subcommittees and may delegate authority to one or more designated members of the committee.

The committee has decision-making authority in regard to its statutory duties of verifying the independence of the external auditor, determining the fee for the external auditor, and for the terms of engagement of the external auditor.