



# **AUDIT COMMITTEES OF MEDICAL SCHEMES**

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## **PREFACE**

This Guide has been prepared by the Medical Schemes Project Group of The South African Institute of Chartered Accountants (SAICA) to provide guidance to boards of trustees of medical schemes in making suitable arrangements for their audit committees, and to assist members serving on medical scheme audit committees in carrying out their responsibilities.

The Guide takes into consideration the requirements relating to audit committees contained in the Medical Schemes Act 131 of 1998, as amended as well as guidance provided in the King Report on Governance for South Africa 2009. It is not obligatory for schemes to adhere to the King Report at this stage.

*Every effort is made to ensure that the advice given in this guide is correct. Nevertheless that advice is given purely as guidance to members of SAICA to assist them with particular problems relating to the subject matter of the guide and SAICA will have no responsibility to any person for any claim of any nature whatsoever which may arise out of or relate to the contents of this guide.*

## **Audit committees**

### **.01 Definitions**

‘Act’ means the Medical Schemes Act 131 of 1998 as amended including the Regulations in terms of this Act;

‘Administrator’ means any person who has been accredited by the Council in terms of section 58 of the Act, and shall, where any obligation has been placed on a medical scheme in terms of this Act, also mean a medical scheme;

‘AFS’ means annual financial statements;

‘Audit committee’ means a committee appointed by the board of trustees in terms of section 36(10) of the Act;

‘Board of trustees’ means the board of trustees charged with the managing of the affairs of a medical scheme, and which has been elected or appointed under its rules;

‘Council’ means the Council for Medical Schemes established in terms of section 3 of the Act;

‘King III’, means the King Report on Governance for South Africa 2009;

‘Medical scheme’ means any medical scheme registered under section 24(1) of the Act;

‘Officer’ means any member of a board of trustees, any manager, principal officer, treasurer, clerk or other employee of the medical scheme, but does not include the auditor of the medical scheme; and

‘Principal officer’ means the principal officer appointed in terms of section 57(4)(a) of the Act.

### **Introduction**

- .02 This guidance is designed to assist the board of trustees of medical schemes in properly structuring the audit committees of their medical schemes, and to assist members serving on these audit committees of medical schemes in carrying out their role appropriately.
- .03 The guide is based on best practice to be followed in respect of corporate governance for legal entities. Best practice goes beyond meeting the essential requirements; boards of trustees need to consider in detail what arrangements for its audit committee are best suited for its particular circumstances. Audit committee arrangements need to be proportionate to the task, and will vary according to the size, complexity and risk profile of each medical scheme.
- .04 While all trustees have a duty to act in the interests of the scheme, the audit committee has a particular role, acting as a sub-committee of the board of trustees, to ensure that the interests of members are properly protected in relation to integrated reporting which includes financial reporting and internal financial control.

- .05 All trustees remain equally responsible for the scheme's affairs as a matter of law. The audit committee, like other committees to which particular responsibilities are delegated, remains a sub-committee of the board of trustees. Any disagreement within the board of trustees, including disagreement between the audit committee's members and the rest of the board of trustees, should be resolved at board of trustees' level. The audit committee thus serves as a sub-committee of the board of trustees for the duties assigned to it by the board of trustees in terms of the audit committee charter approved by the board of trustees.
- .06 Nevertheless, this guidance requires a separate section within the trustees' report describing the role, responsibilities and activities of the audit committee. This requirement deliberately highlights the role of the audit committee and gives it an authority that it might otherwise lack.
- .07 The guidance contains recommendations about the conduct of the audit committee's relationship with the board of trustees, with the principal officer and internal and external auditors. However, the most important features of this relationship cannot be put into a code of practice, which is a frank, open working relationship and a high level of mutual respect, particularly between the audit committee chairman, the board of trustees chairman, the principal officer and the administrator (where applicable). The audit committee must be prepared to take a robust stand, and all parties must be prepared to make information freely available to the audit committee, to listen to their views and to talk through the issues openly.
- .08 Medical schemes can be either self-administered or administered by third parties and the guide may need to be adapted for the different models. The trustees of schemes are non-executives in terms of the Act. The accounting officer is the principal officer in terms of the Act and can also be an employee of the scheme. The principal officer is therefore part of the operational structure and oversees the activities of the scheme.
- .09 The trustees are under an obligation to ensure the audit committee is kept properly informed, and should take the initiative in supplying information rather than waiting to be asked. The board of trustees should make it clear to administrators and staff that they must cooperate with the audit committee and provide it with any information it requires. In addition, board of trustee members will have regard to their common law duty to provide the audit committee with all the information they need in order to discharge their responsibilities.
- .10 Many of the core functions of audit committees set out in this guidance are expressed in terms of 'oversight', 'assessment' and 'review' of a particular function. It is not the duty of audit committees to carry out functions that properly belong to others, such as the medical scheme's trustees in causing the preparation of the AFS, the internal auditors in the preparation of the internal audit work plan or the external auditors in the planning or conducting of external audits. To do so could undermine the responsibility of the trustees and auditors. Audit committees should, for example, review the effectiveness of the system and allocation of responsibilities for the day-to-day monitoring of financial controls but they should not seek to do the monitoring themselves.

## **The audit committee and its purpose**

- .11 Section 36(10) of the Act requires that the board of trustees establish an audit committee. In terms of section 36(12) of the Act, the main roles and responsibilities are to:
- assist the board of trustees in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied by that medical scheme or its administrator in the day-to-day management of its business;
  - facilitate and promote communication and liaison regarding the matters referred to above or a related matter, between the board of trustees, principal officer, administrator and, where applicable, the internal audit staff of the medical scheme;
  - recommend the introduction of measures which the committee believe may enhance the credibility and objectivity of financial statements and reports concerning the affairs of the medical scheme; and
  - advise on any matter referred to the committee by the board of trustees.

It is important to note that the role of the audit committee is advisory and not executive.

- .12 The membership, resources, responsibilities and authorities of the committee are stipulated in its terms of reference (also referred to as an audit committee charter), which may be amended by the board of trustees as and when required. The audit committee is thus constituted in terms of the requirements of sound corporate governance practices and operates within that framework.

## **Membership, procedures and resources**

### **Membership**

- .13 Section 36(10) of the Act requires the board of trustees to appoint an audit committee of at least five members, of which at least two shall be members of the board of trustees. The majority of the members, including the chairman, may not be officers/trustees of the medical scheme or the administrator of the medical scheme, the controlling company of the administrator or any subsidiary of the administrator's controlling company.
- .14 The following people may not be part of the audit committee, but may be invited to an audit committee meeting on an ad-hoc basis:
- The external auditors;
  - The internal auditors;
  - Financial manager of the administrator or the scheme; and
  - The principal officer.
- .15 The audit committee members should provide experience in areas of finance and the medical schemes industry and should collectively keep up to date with key developments affecting their required skills set in discharging their responsibilities as audit committee members.

Because of the audit committee's responsibility to oversee integrated reporting, members of the audit committee should collectively have an understanding of International Financial Reporting

Standards (IFRS), guidelines of the Global Reporting Initiative and any other financial or sustainability reporting standards, regulations or guidelines applicable to the medical scheme.

- .16 The chairman should have the requisite business, financial literacy and leadership skills in understanding the function of the audit committee and promoting good communication.
- .17 The term of office of the members should not exceed three years unless they are reappointed. No audit committee member should be appointed for more than two consecutive terms. Not more than two thirds of the audit committee members should retire every two years, to ensure continuity in the audit committee but also to incorporate new ideas into the audit committee. The term of office of the audit committee should be included in the rules of the scheme.
- .18 In terms of the Act and of the recommendations contained in King III, the chairman of the audit committee is to be elected by the board of trustees, from the independent committee members, i.e. a trustee may not be the chairman of the audit committee.

#### **Meetings of the audit committee**

- .19 It is for the audit committee chairman, in consultation with the board of trustees, to decide on the frequency and timing of its meetings. There should be as many meetings as the audit committee's role and responsibilities require. It is recommended there should be no fewer than two meetings during the year, held to coincide with key dates within the financial reporting and audit cycle.
- .20 No one other than the audit committee's chairman and members is entitled to be present at a meeting of the audit committee. It is for the audit committee to decide if non-members should attend a particular meeting or for a particular agenda item. It is to be expected that the external audit lead partner, as well as the administrator and the principal officer, will be invited regularly to attend meetings. The internal auditor may also be invited to attend as and when required by the committee.
- .21 Sufficient time should be allowed to enable the audit committee to undertake as full a discussion as may be required. An appropriate interval should be allowed between audit committee meetings and main board of trustee meetings to allow any work arising from the audit committee meeting to be carried out and reported on to the board of trustees as appropriate. In terms of the recommendations contained in King III, the audit committee chairman should account to the board of trustees for its activities and make recommendations to the board concerning the adoption of the annual financial statements and any other matters arising from the responsibilities of the audit committee. The chairman (or in his/her absence, an alternate member) of the audit committee should attend the annual general meeting to answer questions concerning matters falling within the scope of the audit committee's responsibilities.
- .22 There should be arrangements for the audit committee to meet with the external and internal auditors independently during the year without the presence of employees of the scheme and its administrators (if applicable). These may take the form of separate meetings or meetings held before or after a scheduled audit committee meeting in order to facilitate this.

## **Resources**

- .23 The audit committee should be provided with sufficient resources to undertake its duties.
- .24 The audit committee should have access to the services of the officers and employees of the scheme and/or the administrator on all audit committee matters including: assisting the chairman in planning the audit committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support.
- .25 In terms of the recommendations contained in King III, the audit committee is allowed to consult with independent specialists or consultants to assist it in the performance of its functions as and when necessary. The costs incurred in obtaining professional advice will be carried by the medical scheme.

## **Skills, experience and training**

- .26 The medical scheme should provide an induction program for new audit committee members. This should cover the role of the audit committee, including its terms of reference and expected time commitment by members; an overview of the medical scheme's business, identifying the main business and financial dynamics and risks. It could also include meeting with some of the trustees and employees of the medical scheme and its administrators (if applicable).
- .27 Training should also be provided to members of the audit committee on an ongoing and timely basis and should include an understanding of the principles of and developments in financial reporting and legislation. In appropriate cases, it may also include, for example, understanding the AFS, applicable accounting standards and recommended practice; the regulatory framework for the medical scheme's business; the role of internal and external audit and risk management.

## **Relationship with the board of trustees**

- .28 The board of trustees should provide/approve written terms of reference/charter for the audit committee. The terms of reference should be tailored to the particular circumstances of the medical scheme but must remain in line with the requirements of the Act (An example of such terms of reference is contained in the Appendix).
- .29 The audit committee should review annually its terms of reference/charter and its own effectiveness and recommend any changes that they deem necessary to the board of trustees.
- .30 The board of trustees should review the audit committee's effectiveness annually.
- .31 The audit committee is an advisory body with no executive powers. However, it could be authorised by the board of trustees to investigate any activity within its terms of reference and seek any information or documentation it requires from the staff/administrator, who are required to co-operate with the audit committee in the conduct of its enquiries.
- .32 The audit committee is authorised by the board of trustees to:
  - seek any information that it requires from any employee of the scheme and all employees are directed to co-operate with any request made by the audit committee;

- seek any information that it requires from the administrator of the scheme and the administrator is directed to co-operate with any request made by the audit committee; and
- investigate any activity within its terms of reference.

The board of trustees must appoint a person to fill a vacancy on the audit committee should such vacancy arise within the time limits as set in the audit committee charter.

## **Role and responsibilities**

### **Integrated reports and sustainability**

- .33 In terms of the recommendations contained in King III, medical schemes should prepare an integrated report that provides information about the social, economic and environmental impact of the medical scheme on the geographical area in which it operates. The board of trustees is ultimately responsible for the integrity of the integrated report but they would require the assistance of the audit committee. The overseeing of sustainability issues in the integrated report may be delegated to the audit committee by the board of trustees, in terms of the audit committee charter.

The audit committee should consider any factors that may predispose the board of trustees to present an incomplete or misleading picture of the medical scheme's position, performance or sustainability. The audit committee should also assist by ensuring that the information is reliable and that no conflicts or differences arise when compared with the financial results of the medical scheme.

### **Financial reporting and controls**

- .34 The audit committee should be responsible for evaluating the significant judgements and reporting decisions (such as going concern assumptions) affecting the integrated report by management, including changes in accounting policies, decisions requiring a major element of judgement and clarity and completeness of the proposed financial and sustainability disclosures. It should require explanations from management on the accounting of significant or unusual transactions and should consider the views of the external auditor's in these instances. The audit committee should further consider compliance with legislation and accounting standards as well as legal and other relevant requirements.

The audit committee should further review the integrity and reliability of financial reporting (including periodic financial reports).

Scrutiny by the audit committee should not be confined to the primary financial statements and should extend to all relevant narrative information which should present a balanced view of the medical scheme's performance.

The audit committee should understand how the board of trustees and the external auditor (and any other relevant external assurance provider) evaluate materiality for integrated reporting purposes. In addition, the audit committee should evaluate the credentials of the external assurance provider in terms of King III.

The audit committee should review the expertise, resources and experience of the finance function performed internally and/or externally by their administrators on an annual basis. The results of the review should be disclosed in the integrated report.

After performing this function, the audit committee should propose the adoption of the report by the board of trustees, who remain ultimately responsible for this reporting.

### **Summarised information**

- .35 Scheme rules can require the distribution of the full set of AFS or a summarised set of AFS to all members. Such summarised AFS need to comply with the requirements of Circular 38 of 2007.

The audit committee should review the content of the summarised information with the object that it provides a concise but balanced view of the medical scheme's integrated information.

The audit committee should engage the external auditors to provide assurance on the summarised financial information.

### **Combined assurance model**

- .36 The audit committee should ensure that the combined assurance received is appropriate to address all the significant risks facing the medical scheme. From a King III perspective, it establishes and aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers on the risk areas affecting the medical scheme. This will result in an increase in the assurance coverage and capacity of internal audit, risk management functions, compliance functions, forensic functions and external auditors to adopt a more risk-based approach.

### **Internal financial controls and risk management systems**

- .37 The board of trustees remains ultimately responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the audit committee that it has done so. Where an administrator is appointed by the board of trustees, this does not absolve the board of trustees of their responsibilities.
- .38 The audit committee should review the effectiveness of the integrity of the medical scheme's internal financial controls but they should not seek to do the monitoring themselves.
- .39 The audit committee should assess the scope and effectiveness of the systems established by the board of trustees to identify, assess, manage and monitor financial and non financial risks.

### **The internal audit process**

- .40 The audit committee should monitor and review the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board of trustees.

The audit committee should be responsible for the appointment, performance assessment and dismissal of the chief audit executive (CAE) or the appointment of an outsourced internal audit function.

- .41 Where the administrator appoints an internal auditor, the audit committee needs access to that internal auditor and evaluate whether it is sufficient to meet the requirements of the audit committee. The audit committee further needs to evaluate the appropriateness of making use of the administrator's internal auditor e.g. objectivity and independence considerations.
- .42 The audit committee should review and approve the medical scheme's internal audit function's remit, having regard to the complementary roles of the internal and external audit functions. The audit committee should ensure that the function has the necessary resources and access to information to enable it to fulfill its mandate.
- .43 In its review of the work of the internal audit function, the audit committee should, inter alia:
- in the event of making use of the administrator's internal auditor, assess the appropriateness of the arrangement;
  - ensure that the internal auditor has direct access to the board of trustees chairman and to the audit committee and is accountable to the audit committee;
  - review and assess the annual internal audit scope and work plan;
  - receive a report on the results and findings of the internal auditors' work on a periodic basis;
  - review and monitor the board of trustees' responsiveness to the internal auditor's findings and recommendations;
  - meet with the head of internal audit at least once a year without the presence of the board of trustees;
  - monitor and assess the role and effectiveness of the internal audit function in the overall context of the scheme's risk management system; and
  - review the communication between the external and internal auditors.

The above should apply equally to the internal auditor of the administrator should the audit committee rely on the internal auditor of the administrator's work. Should the internal auditor of the administrator not cover the internal audit function adequately, the audit committee should assess the gap and make the necessary arrangements to gain comfort.

### **The external audit process**

- .44 The audit committee is the body responsible for overseeing the scheme's relations with the external auditor.

#### *Appointment*

- .45 The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors through the board of trustees to the annual general meeting (in terms of the scheme's rules).

- .46 The audit committee should ensure that the auditor is not disqualified in terms of section 36(3) of the Act and therefore the auditor should not be:
- a person who is a member of its board of trustees;
  - a person who is otherwise engaged as an employee, officer or contractor of the medical scheme;
  - a person who is an employee, director, officer or contractor of the medical scheme's administrator, or of the holding company, subsidiary, joint venture or associate of its administrator;
  - a person who is not engaged in public practice as an auditor;
- or
- a person who is disqualified from acting as an auditor in terms of section 275 of the Companies Act, 1973.
- .47 Upon the annual appointment of an auditor, the audit committee need to ensure that the necessary documentation has been submitted to the Registrar for medical schemes and has consequently been approved by the Registrar as per section 36(2) of the Act.
- .48 If the external auditor resigns or is removed or dismissed, the audit committee should investigate the issues giving rise to such resignation/ removal/ dismissal and consider whether any action is required.
- .49 Upon termination of the auditor's appointment for any reason, including resignation, the audit committee should ensure that the auditor has submitted in terms of section 36(5)( c) of the Act to the Registrar a statement with the reasons for the termination.

If 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 committee should ensure that a copy of such report was submitted to the Registrar.

#### *Terms and Remuneration*

- .50 The audit committee should discuss and review, with the external auditors before the audit commences, the auditors' engagement letter, the terms, nature and scope of the audit function, procedure and engagement and the audit fee and ensure the coordination and maintenance of a professional relationship between firms where more than one firm is involved.
- .51 The scope of the external audit should be reviewed by the audit committee with the auditor. If the audit committee is not satisfied as to its adequacy it should request that additional work be undertaken.
- .52 The audit committee should satisfy itself that the level of fees payable in respect of the audit services provided is appropriate and that an effective audit can be conducted for such a fee.
- .53 The audit committee should review and agree the engagement letter issued by the external auditor at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year.

*Independence, including the provision of non-audit services*

- .54 The audit committee should have procedures to ensure the independence and objectivity of the external auditor annually, taking into consideration relevant professional and regulatory requirements. This assessment should involve a consideration of all relationships between the medical scheme and the audit firm (including the provision of non-audit services and the provision of services to third party providers such as the administrator). The audit committee should consider whether, taken as a whole and having regard to the views of the external auditor, the board of trustees and internal audit, those relationships appear to impair the auditor's judgement or independence.
- .55 The audit committee should develop and recommend to the board of trustees the medical scheme's policy in relation to the provision of non-audit services by the auditor. The audit committee's objective should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity. In this context, the audit committee should consider:
- whether the skills and experience of the audit firm make it a suitable supplier of the non-audit service;
  - whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;
  - the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit fee; and
  - the criteria which govern calculation of the audit fees.
- .56 The audit committee should set and apply a formal policy specifying the types of non-audit work:
- from which the external auditors are excluded;
  - for which the external auditors can be engaged without referral to the audit committee; and
  - for which a case-by-case decision is necessary.
- .57 In determining the policy, the audit committee should take into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and in principle should not agree to the auditor providing a service if, having regard to the ethical guidance, the result is that:
- the external auditor audits its own firm's work;
  - the external auditor makes management decisions for the medical scheme;
  - a mutuality of interest is created; or
  - the external auditor is put in the role of advocate for the medical scheme.
- .58 The audit committee should satisfy itself that any safeguards required by ethical guidance are implemented.
- .59 The audit committee should satisfy itself that procedures are in place to ensure that auditors are not disqualified to act as auditors.

### *Annual audit cycle*

- .60 At the start of each annual audit cycle, the audit committee should ensure that appropriate plans are in place for the audit.
- .61 The audit committee should consider whether the auditor's overall work plan, including planned levels of materiality, and proposed resources to execute the audit plan appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team.
- .62 The audit committee should review, with the external auditors, the findings of their work. In the course of its review, the audit committee should:
- discuss with the external auditor major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved;
  - review key accounting and audit judgements; and
  - review levels of errors identified during the audit, obtaining explanations from the board of trustees and, where necessary the external auditors, as to why certain errors might remain uncorrected.
- .63 As part of the ongoing monitoring process, the audit committee should review the management letter (or equivalent). The audit committee should review and monitor management's responsiveness to the external auditor's findings and recommendations.
- .64 At the end of the annual audit cycle, the audit committee should assess the effectiveness of the audit process. In the course of doing so, the audit committee should:
- review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
  - consider the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committee, and in their commentary where appropriate on the systems of internal control;
  - obtain feedback about the conduct of the audit from key people involved, e.g. the administrator and the head of internal audit;
  - consider any modification to the audit report; and
  - ensure coordination between the external and internal audit functions.

### **Communication with members**

- .65 The trustees' report should contain a separate section that describes the role and responsibilities and remuneration packages of the audit committee and the actions taken by the audit committee to discharge those responsibilities.
- .66 The audit committee section should include, inter alia:
- a summary of the role of the audit committee;
  - the names and qualifications of all members of the audit committee during the period;
  - the number of audit committee meetings and attendance by each member;

- any payments or considerations made to them in the particular year;
  - a statement on whether the audit committee is satisfied that the external auditor was independent from the medical scheme;
  - commentary on the financial statements, accounting practices and the internal financial control of the medical scheme; and
  - a report on the way the audit committee has discharged its responsibilities in terms of the adopted formal terms of reference.
- .67 The chairman of the audit committee should be present at the annual general meeting to answer questions, through the chairman of the board of trustees, on the report on the audit committee's activities and matters within the scope of the audit committee's responsibilities.

### Specimen terms of reference for an audit committee

#### Constitution

1. The board of trustees hereby resolves to establish a committee of the board of trustees to be known as the audit committee. The committee is a sub-committee of the board of trustees and is answerable to the board.

#### Purpose

2. The audit 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 a maker of recommendations to the board for its approval or final decision. The audit committee does not relieve the trustees of any of their responsibilities, but assists them to fulfil those responsibilities.
3. The overall objective of the audit 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 financial risks, the assurance process, and the scheme's process for monitoring compliance with laws and regulations and its own code of business conduct.
4. In performing its duties, the committee will maintain effective working relationships with the board of trustees, management, and the internal and external assurance providers.
5. To perform his or her role effectively, each committee member will obtain an understanding of the detailed responsibilities of committee membership as well as the scheme's business, operations and risks.

#### Authority

6. To execute the committee's statutory obligations in terms of the Medical Schemes Act and King III. The audit committee is a separate statutory committee that is appointed by the board.
7. The board of trustees authorises the audit committee, within the scope of its responsibilities, to:
  - seek any information that it requires from any employee/ administrator of the scheme and all employees are directed to co-operate with any request made by the audit committee;
  - seek any information that it requires from external parties;
  - investigate any activity within its terms of reference;

- obtain outside legal or independent professional advice (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
- access the scheme's records, facilities and any other resources necessary to discharge its duties and responsibilities.

## **Membership**

8. The committee and the chairman shall be appointed by the board of trustees. The committee shall consist of at least five members of which at least two members shall be members of the board of trustees. The majority of the members of the committee, including the chairman, shall not be officers of the scheme or an employee of the administrator of the scheme, the controlling company of the administrator or any subsidiary of the administrator's controlling company.
9. Audit 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 committee member.
10. Each member should be capable of making a valuable contribution to the committee. The board should evaluate whether the committee collectively have sufficient qualifications and experience to fulfill its duties. Audit committee members should keep up-to-date with developments affecting the required skills-set.
11. The quorum for the transaction of business shall be three members of the audit committee, representative of trustees and non trustee members, present throughout the meeting of the committee. The majority of the members in attendance should be independent.
12. The duration of membership of the audit committee shall be a 3-year term, and not more than 2 consecutive terms.
13. Vacancies on the audit committee must be filled by the board within [40] business days after the vacancy arises.
14. The appointment of alternatives or proxies to act for or on behalf of committee members is not permitted.

## **Role of the Chairman of the Audit Committee**

15. The chairman of the audit committee must be elected by the board from time to time.
16. The chairman of the audit committee should, in conjunction with the committee secretary, participate in setting and agreeing the agenda of the committee.
17. Review and approve the audit committee minutes prior to distribution. The minutes must be

formally approved by the audit committee at its next scheduled meeting.

18. Report to the board of trustees after each meeting of the audit committee – distribute minutes of the meeting together with other written information if necessary.
19. As a minimum, the chairman of the committee [or another member of the committee] shall attend the board meeting at which the financial statements are approved.
20. The chairman of the audit committee should be present at the annual general meeting (AGM) to answer questions, through the chairman of the board on the report of the audit committee's activities and duties.
21. The chairman of the audit committee should be properly briefed on the technical aspects to enable him/her to report to the board and members.
22. The chairman is 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.
23. The audit committee chairman, in consultation with the scheme secretary, has the power to call a committee meeting whenever he/she thinks it is necessary.

#### **Attendance at meetings**

24. The audit committee shall, at their entire discretion, be entitled to invite any person to attend and be heard at meetings of the audit committee. Persons attending by invitation only may participate in discussions but may not vote and do not form part of the quorum for audit committee meetings.
25. The Principal Officer, and where applicable, a representative of the third party administrator, head of internal audit and a representative of the external auditors (or any other officials depending on the context of the particular scheme) shall attend meetings at the invitation of the committee. Legal or other advisers, who may have meaningful input to the audit committee's activities, can be requested to attend meetings as and when needed.
26. The chairman of the board of trustees and other board of trustees' members shall attend if invited by the committee.
27. There should be at least one meeting a year, or part thereof, where the internal and external auditors attend without employees of the scheme and the administrator being present.
28. The chairman of the audit 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 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.

29. Taking into consideration the capacity at the scheme, the scheme secretary shall be secretary of the committee (or where no such person is appointed, the principal officer or his secretary).

### **Frequency of meetings**

30. 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 [two] times a year, and where appropriate should coincide with key dates in the scheme's financial reporting cycle. Sufficient time should be allowed between audit committee meetings and main board of trustees meetings to allow any work arising from the audit committee meeting to be carried out and reported to the board of trustees as appropriate.
31. 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.

### **Proceedings at meetings**

32. The proceedings of all meetings will be minuted.
33. The minutes of audit committee meetings shall be confirmed at the next meeting of the committee. The minutes of all audit committee meetings shall be submitted to and be considered by the Board.
34. In respect of voting at meetings:
- A decision agreed upon by the majority of the members present at any meeting of the audit committee shall constitute a decision of the audit committee;
  - Persons attending by invitation may not vote; and
  - In the event of an equality of votes regarding any matter, the chairman of the audit committee shall have a casting vote in addition to his or her deliberate vote. When the chairman is not available to chair the audit committee the members present will select a member to chair the meeting provided that an independent member chairs the meeting.
35. The audit 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.
36. The secretary shall agree with the chairman of the audit committee the contents of the agenda for each meeting. Meeting agendas should be prepared and distributed in advance together with sufficient background information to enable the audit committee members to appropriately prepare for the meetings. Audit committee papers should be concise, relevant and timely and should be distributed sufficiently in advance of meetings. The secretary shall attend the audit committee meetings and comprehensively record the proceedings and

decisions taken. Minutes should be distributed to all committee members after the preliminary approval by the chairman of the audit committee.

37. 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.
38. 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.

## **Responsibilities**

39. The responsibilities of the committee shall be:

### **39.1 Integrated Reporting**

#### ***General***

- Oversee integrated reporting. Have regard to all factors and risks that may impact on the integrity of the integrated report
- Gain an understanding of all significant actual or potential financial and non-financial risks (such as operational, strategic and regulatory) that may have implications on the integrated report and how management is managing these effectively
- Understand how the board and the external auditor (and any other relevant external assurance provider) evaluate materiality for integrated reporting purposes. Carefully review forward-looking 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 forward-looking goals

#### ***Sustainability Issues***

- Recommend to the board to engage an external assurance provider on material sustainability issues. The audit committee should evaluate the independence and credentials of the external assurance provider
- Review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information

#### ***Internal Control***

- 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
- 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/or any potential transactions that may involve an unacceptable degree of risk

- 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
- Gain an understanding of whether internal control recommendations made by internal and external auditors have been implemented by management

### ***Financial Reporting***

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

#### ***(a) Annual Financial Statements***

- Review and comment on the annual financial statements (AFS) included in the 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 that IFRS developments are considered
- 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
- Be informed when there is a disagreement on auditing / 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 should be obtained and approved by the audit committee before the committee's recommendation is made to the board. The audit committee should also be satisfied with the credentials of the person providing such an opinion
- Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures

- Focus on judgmental areas, for example those involving valuation of assets and liabilities; litigation reserves; and other commitments and contingencies
- Meet with management and the external auditors to review the financial statements and the results of the audit
- Review a documented assessment prepared by management of the going concern status of the scheme. To enable the audit committee to conduct a thorough discussion, management should document the key assumptions in reaching their conclusions
- Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the scheme and its operations
- Recommend the annual financial statements for approval to the board

***(b) Trustees' responsibility statement***

- To review the trustees' responsibility statement to be included in the AFS including the statement on effectiveness of the systems of internal control, prior to publication, and in particular to review:
  - The procedures for identifying financial risks and controlling their impact on the scheme;
  - The scheme's policies and procedures for preventing or detecting fraud;
  - The scheme's policies and procedures for ensuring compliance with relevant regulatory and legal requirements;
  - The scheme administrator's representations to the board in regard to the fair presentation of the trustees' responsibilities statement.

***(c) Summarised Integrated Information / Other Press Releases***

- Be briefed on how management develops summarised integrated information and other press releases; the extent of internal audit involvement; and the extent to which the external auditors review such information
- Engage the external auditors to provide assurance on the summarised financial information
- Review and assess the fairness of the financial information and disclosures, obtain explanations from management and internal and external auditors on whether:
  - a. Generally accepted accounting principles have been consistently applied;
  - b. There are any actual or proposed changes in accounting or financial reporting practices;
  - c. There are any significant or unusual events or transactions;
  - d. The scheme's financial and operating controls are functioning effectively; and
  - e. The financial information contains adequate and appropriate disclosures.

***(d) Other***

- To review and monitor the corporate governance practices, in particular the ethical conduct of the scheme, its trustees and officials by:
  1. Reviewing any Code of Ethical Standards prior to its publication and making recommendations to the board in this regard;
  2. Receiving reports from the administrators, the principal officer and/or trustees of material frauds or irregularities identified;
  3. Considering any violations of ethical conduct or activity;
  4. Considering non compliance with the law and regulations of other applicable statutes.
- To review the scheme's Risk Management Assessment
- To consider other topics, as defined by the board of trustees

**39.2 Combined Assurance**

- Ensure that a combined assurance model is applied to provide a coordinated 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]
- Monitor the relationship between external assurance providers and the scheme

***External audit***

- To consider the appointment of the external auditor and assess the independence of the external auditor
- To oversee the process for selecting the external auditor and make appropriate recommendations through the board of trustees to the members to consider at the AGM
- To 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
- To 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
- To review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements
- To review the external auditor's management letter and the response of the administrators/principal officer/trustees (as appropriate)
- To review the external auditors' audit report as well as the quality and effectiveness of the external auditor
- Monitor and report on the independence of the external auditor

- To 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 to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity
- Upon termination of the auditor's appointment for any reason, including resignation, to ensure that the auditor has submitted to the Registrar a statement with the reasons for the termination
- 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 committee should ensure that a copy of such report was submitted to the Registrar

#### ***Internal audit (appointed by the scheme and outsourced***

- The audit committee is responsible for the appointment, performance assessment and/or dismissal of the Chief Audit Executive (CAE)
- When making use of the administrator's internal auditor, to assess the appropriateness of the arrangement
- 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 it has appropriate standing within the scheme
- Evaluate the nature and extent of the formal documented review of the design, implementation and effectiveness of the scheme's internal financial controls and risk management process to be performed by internal audit on behalf of the board annually. 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, should be reported to the board and stakeholders
- Identify difficulties encountered while conducting audits, including restrictions on the scope of their work or access to required information;
- 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 / every [number] years
- Meet separately with the CAE to discuss any matters that the committee or auditors believe should be discussed privately
- 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/principal officer/trustees (as appropriate) to any internal audit recommendations

#### ***Finance Function***

- Review the expertise, resources and experience of the scheme's/ administrator's

finance function every year and disclose the results of the review in the integrated report

- Evaluate the suitability of the expertise and experience of the principle officer and recommend to the board if any changes are necessary

#### 40. **Risk Management (if appropriate)**<sup>1</sup>

- Oversee the development, implementation and annual review of a risk management policy and plan for a system and process of risk management to recommend for approval to the board
- Make recommendations to the board concerning the levels of risk tolerance and appetite and monitoring that risks are managed within the levels of risk tolerance and appetite as approved by the board
- Maintain a register of key and sustainability risks facing the scheme with responses to address these key risks
- Ensure that compliance forms an integral part of the scheme's risk management process
- Ensure that risk management assessments are performed on a continuous basis
- Ensure that frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks
- Ensure that management considers and implements appropriate risk responses
- Ensure that continuous risk monitoring by management takes place
- Express the committee's formal opinion to the board on the effectiveness of the system and process of risk management
- Review reporting concerning risk management that is to be included in the integrated report ensuring it is timely, comprehensive and relevant

#### 41. **Compliance with Laws and Regulations**

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance
- Obtain regular updates from management and scheme's legal counsel [and compliance officer] regarding compliance matters
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements
- Review the findings of any examinations by regulatory agencies

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<sup>1</sup> The board is responsible for the governance of risk (should then be documented in the board charter). The board can delegate this to a risk committee or the audit committee. The proposed wording above is from an audit committee's perspective. However, if a risk committee is responsible for risk governance, there should be a separate terms of reference/charter setting out membership, meetings, duties etc.

42. **Compliance with the Scheme’s Code of Conduct (if appropriate)**

- Ensure that the code of conduct is in writing and that arrangements are made for all employees to be aware of it
- 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
- Review the process for monitoring compliance with the code of conduct and consider any matters that may have an effect on the integrated report
- Obtain regular updates from management regarding compliance
- Approve any amendments to the scheme’s code of conduct as it applies to integrated reporting

43. **Reporting and Accountability**

- The committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the board of trustees
- Regularly report internally to the board on its statutory duties and duties assigned to it by the board and make appropriate recommendations
- Ensure the board is aware of matters which may significantly impact the financial condition or affairs of the business
- The committee’s duties and activities and remuneration packages during the year shall be disclosed in the AFS
- The audit committee shall make recommendations to the Board concerning the adoption of the AFS and any other matters arising from the above responsibilities
- 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, should be reported to the board and stakeholders
- Recommend the integrated report for approval by the board. As a minimum, the audit committee should provide the following information in the integrated report:
  - a. A summary of its role;
  - b. A statement on whether or not the audit committee has adopted a 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;
  - c. The names and qualifications of all members of the audit committee during the period under review, and the period for which they served on the committee;

- d. Number of audit committee meetings held during the period under review and members' attendance at these meetings;
  - e. A statement on whether or not the audit committee considered and recommended the internal audit charter for approval by the board;
  - f. A description of the working relationship with the CAE;
  - g. Information about any other responsibilities assigned to the audit committee by the board;
  - h. A statement on whether the audit committee complied with its legal, regulatory or other responsibilities; and
  - i. A statement on whether or not the audit committee recommended the integrated report to the board for approval.
- Insert in the financial statements to be issued in respect of that financial year, an audit committee report including:
    - a. The committee's composition and duties;
    - b. How its duties were carried out;
    - c. If the committee is satisfied with the independence of the external auditor;
    - d. The committee's view on the financial statements and the accounting practices;
    - e. Whether the internal financial controls are effective; and
    - f. Results of the review of the finance function

#### 44. **Other Responsibilities**

- Perform other oversight functions as requested by the board
- Review any other reports the scheme issues that relate to audit committee responsibilities
- Receive and deal appropriately with any concerns or complaints relating to:
  - a. The accounting practices and internal audit of the scheme;
  - b. The content or auditing of the scheme's financial statements;
  - c. The internal financial controls of the scheme; or
  - d. Any related matter.
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist
- [Annually] Review and update the charter; receive approval of changes from the board
- Evaluate the committee's own performance on a regular basis, reporting these findings to the board

45. **Remuneration**

The board shall decide on the value of fees (if any) to be paid to the chairman and members of the audit committee for services rendered on the audit committee, which shall be subject to review, by the board, from time to time.