



AUDIT COMMITTEES OF MEDICAL SCHEMES

January 2019

The Council for Medical Schemes has clarified that schemes are encouraged but not obliged to comply with the King Report on Governance for South Africa ('King Code'). It should be noted that the SAICA Audit Committees of Medical Schemes Guide has been prepared on the assumption that the scheme has elected to comply with the King Codes.

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PREFACE

This Guide has been prepared by the Medical Schemes Project Group (MSPG) 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. 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.



GLOSSARY OF TERMS

Accounting period	For the financial statements of medical schemes, an accounting period is the 12-month period ending 31 December
Act	The Medical Schemes Act No 131 of 1998, as amended, and the Regulations thereto
Administrator	Any legal person who has been accredited by the Council for Medical Schemes (the Council) in terms of section 58 of the Act to administer medical schemes
AFS	Annual Financial Statements
Auditor	Any registered auditor as defined in the Auditing Profession Act, 2005, approved by the Council to act as auditor for a medical scheme
Audit committee	The committee appointed by the board of trustees in terms of section 36(10) of the Act
Board of Trustees	The board of trustees of any medical scheme registered in terms of the Act charged with the managing of the affairs of a medical scheme, and which has been elected or appointed under the rules of the specific medical scheme <i>In the context of a medical scheme this structure would be the governing body in terms of King IV.</i>
Combined Assurance model (Combined assurance)	King IV – “A combined assurance model incorporates and optimizes all assurance services and functions so that, taken as a whole, these enable an effective control environment, support the integrity of information used for internal decision-making by management, the board of trustees and its committees; and support the integrity of the organisation’s external reports.”
Companies Act	Companies Act No 71 of 2008, as amended
Conflict of interest	King IV – “A conflict of interest, used in relation to members of the board of trustees and its committees, occurs when there is a direct or indirect conflict, in fact or in appearance, between the interests of such member and that of the organisation. It applies to financial, economic and other interests in any opportunity from which the organisation may benefit, as well as use of the property of the organisation, including information. It also applies to the member’s related parties holding such interests. (See also ‘related party’ and ‘independence’.)”
Council	The Council for Medical Schemes established by section 3 of the Act



Governing body	<p>King IV – “The governing body is the structure that has primary accountability for the governance and performance of the organisation.”</p> <p>King IV – “‘Members of the governing body’ (also referred to as ‘those charged with governance duties’) are those who are duly appointed to serve on the governing body and / or its committees.”</p> <p><i>In the context of a medical scheme this structure would be the board of trustees.</i></p>
Independence	<p>King IV – “Independence generally means the exercise of objective, unfettered judgment. When used as the measure by which to judge the appearance of independence, or to categorize a non-executive member of the board of trustees or its committees as independent, it means the absence of an interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making. (See also ‘conflict of interest’.)”</p>
Independent audit committee member	An appointed audit committee member who is not a trustee of the scheme
King Committee	King Committee on Corporate Governance in South Africa
King III	The King Report on Governance for South Africa 2009. <i>(Ownership of the King III trademark for South Africa 2009 is held by the Institute of Directors in Southern Africa and all rights are reserved.)</i>
King IV	The King Report on Governance for South Africa 2016. <i>(Ownership of the King IV trademark for South Africa 2016 is held by the Institute of Directors in Southern Africa and all rights are reserved.)</i>
Medical scheme	Any medical scheme registered under section 24(1) of the Act
Member	A natural person, who has been enrolled or admitted as a member of a medical scheme, who is entitled to healthcare benefits, in terms of the rules of the medical scheme, in exchange for a contribution
Officer	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
Principal officer	The principal officer appointed in terms of section 57(4) (a) of the Act
Registrar	The Registrar of Medical Schemes
	<p>King IV – “A related party is a person or entity as set out in section 2(1) of the Companies Act. It applies <i>mutatis mutandis</i> to organisations other than companies” (See also ‘conflict of interest’.) Section 2(1) of the Companies Act states:</p> <p>“1) For all purposes of this Act-</p> <p>(a) an individual is related to another individual if they-</p>



Related Party	<ul style="list-style-type: none">(i) are married, or live together in a relationship similar to a marriage; or(ii) are separated by no more than two degrees of natural or adopted consanguinity or affinity;(b) an individual is related to a juristic person if the individual directly or indirectly controls the juristic person, as determined in accordance with subsection (2); and(c) a juristic person is related to another juristic person if-<ul style="list-style-type: none">(i) either of them directly or indirectly controls the other, or the business of the other, as determined in accordance with subsection (2);(ii) either is a subsidiary of the other; or(iii) a person directly or indirectly controls each of them, or the business of each of them, as determined in accordance with subsection (2).”
Report of the Board of Trustees	The report by those persons with a fiduciary responsibility towards the medical scheme. For the purpose of this Guide, the report will include reports by the board of trustees, management committee, audit committee and investment committee or any other persons with a fiduciary responsibility towards the medical scheme.
Risk	King IV – “Risk is about the uncertainty of events; including the likelihood of such events occurring and their effect, both positive and negative, on the achievement of the organisation’s objectives. Risk includes uncertain events with a potential positive effect on the organisation (i.e. opportunities) not being captured or not materialising.”



INTRODUCTION

1. 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.
2. 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 are best suited for their particular audit committee. 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.
3. All trustees are equally responsible for the scheme's affairs as a matter of law. The audit committee is 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-trustee level.
4. Nevertheless, this guidance requires a separate section within the trustees' report that highlights the roles, responsibilities and activities of the audit committee.
5. The guidance contains recommendations about how the audit committee's relationship with the board of trustees, the principal officer, and internal and external auditors should be conducted. However, the most important features of this relationship cannot be put into a code of practice. These features are 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 its views and to talk through the issues openly.
6. 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 is an employee of the scheme. The principal officer is therefore part of the operational structure and oversees the activities of the scheme.
7. The trustees are under obligation to ensure that the audit committee is kept properly informed and have a duty to provide the audit committee with all the information it needs in order to discharge its responsibilities. 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.
8. Many of the core functions of the audit committee set out in this guidance are expressed



in terms of “oversight”, “assessment” and “review” of a particular function. It is not the duty of the audit committee to carry out functions that properly belong to others, such as the medical scheme’s trustees in causing the preparation of the Annual Financial Statements (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. The audit committee should, for example, review the effectiveness of the system and allocation of responsibilities for the day-to-day monitoring of financial controls but it should not seek to do the monitoring itself.

THE AUDIT COMMITTEE AND ITS PURPOSE

9. 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 and King IV, the main roles and responsibilities of the audit committee 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 combined assurance processes applied by that medical scheme and/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, external audit staff and, where applicable, the internal audit staff of the medical scheme;
 - Recommend the introduction of measures which the committee believes may enhance the credibility and objectivity of the annual integrated report, including the financial statements, and other reports concerning the affairs of the medical scheme;
 - Have oversight over the governance and risk management processes adopted by the board of trustees to better enable the committee to recommend for approval by the board of trustees the internal and external audit plans and the appropriateness of the combined assurance model; 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.

10. In principle 6, King IV states that the board of trustees should serve as the focal point and custodian of corporate governance in the organisation.
11. King IV (in Part 5.3, Principle 8, Practice 51) states that the establishment of an audit committee is a statutory requirement for some organisations. As a matter of leading practice, the governing body of any organisation that issues audited financial statements should consider establishing an audit committee, the role of which should be to provide independent oversight of, among others:



- The effectiveness of the organisation's assurance functions and services, with particular focus on combined assurance arrangements, including external assurance service providers, internal audit and the finance function; and
 - The integrity of the AFS and, to the extent delegated by the board of trustees, other external reports issued by the organisation.
12. In Part 5.3, Principle 8, Practice 58, King IV recommends that the audit committee should meet annually with the internal and external auditors respectively, without management being present, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.
13. The audit committee must meet as often as may be necessary to perform its functions. Practically this would result in at least three meetings per annum:
- a) To appoint the external auditor;
 - b) To sign off on the external auditor's audit plan (interim and final); and
 - c) To sign off on the AFS.

King IV principles on delegation of roles by the board of trustees

14. Where a board of trustees has delegated particular roles and responsibilities to a committee, King IV, in principle 8, recommends that its arrangements for delegation within its own structures should promote independent judgment and assist with balance of power and the effective discharge of its duties. Furthermore, this delegation should be recorded in writing and approved by the board of trustees. The record should set out:
- a) The nature and extent of the responsibilities delegated;
 - b) The decision-making authority;
 - c) The duration of the delegation; and
 - d) The delegates' reporting responsibilities.

The delegation to committees should be recorded by means of formal terms of reference that should be approved annually by the board of trustees (King IV).

KING IV, Part 5.3, Practice 43 states the following:

"The terms of reference should, at a minimum, deal with the following:

- a) The composition of the committee and, if applicable, the process and criteria for the appointment of committee members who are not members of the board of trustees;
- b) The committee's overall role and associated responsibilities and functions;
- c) Delegated authority with respect to decision-making;
- d) The tenure of the committee;
- e) When and how the committee should report to the board of trustees and others;



- f) The committee's access to resources and information;
 - g) The meeting procedures to be followed; and
 - h) The arrangements for evaluating the committee's performance."
15. The board of trustees should ensure that the audit committee, as a whole, has the necessary knowledge, skills, experience and capacity to execute its duties effectively.
 16. From this, it follows that a medical scheme must pay all expenses reasonably incurred by its audit committee, including, if the audit committee considers it appropriate, the fees of any consultant or specialist engaged by the audit committee to assist it in the performance of its functions.
 17. King IV, in Part 5.3, Principle 8, Practices 52 to 54, states the following:
 - A statutory audit committee has the power to make decisions regarding its statutory duties and is accountable for its performance in this regard. In addition to its statutory duties, the board of trustees may delegate other responsibilities to the audit committee, such as the approval of the AFS, but the board of trustees remains ultimately accountable for such delegated responsibilities.
 - If the board of trustees delegates risk governance to the audit committee, the audit committee should satisfy itself that it dedicates sufficient time to this responsibility.
 - Whether or not the governance of risk is delegated to the audit committee, the audit committee should oversee the management of financial and other risks that affect the integrity of external reports issued by the organisation.
 - In Part 4.3, Principle 8, Practice 42, King IV emphasizes that: "Delegation to committees should be recorded by means of a formal term of reference that should be approved and reviewed annually by the board of trustees."
 - Any delegation by the board of trustees of its responsibilities to a committee will not by or of itself constitute a discharge of the board of trustees' accountability. The board of trustees should apply its collective mind to the information, opinions, recommendations, reports and statements presented by the committee.

MEMBERSHIP, PROCEDURES AND RESOURCES

Membership

18. 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. King IV in Part 4.3, Principle 8, Practice 46 also emphasises that each committee should have a minimum of three members subject to legal provisions, where applicable.

Section 36(11) states that the majority of the members, including the chairman, may not be officers or 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.

Therefore, 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.

King IV, in Part 4.3, Principle 8, Practice 47, states that members of the executive and senior management should be invited to attend committee meetings either by standing invitation or on an ad-hoc basis to provide pertinent information on and insights into their areas of responsibility.

19. King IV recommends, in Part 4.3, Principle 8, Practice 55, that the members of the audit committee should, as a whole, have the financial literacy, skills and experience necessary for executing their duties effectively. It is important to note that the Companies Act of South Africa requires at least one-third of the members of the audit committee to have academic qualifications, or experience in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.
20. The board of trustees should consider having committee members who have sufficient experience in, and an in-depth understanding of, among others:
 - Corporate governance;
 - External audit process;
 - Governance of information and technology;
 - International Financial Reporting Standards (IFRS);
 - Internal financial controls;
 - Internal auditing process;
 - Integrated reporting, integrated thinking and sustainability;
 - Laws and regulations governing the scheme;
 - Medical schemes industry; and
 - Risk management.
21. In Part 5.3, Principle 8, Practice 56, King IV further recommends that all members of the audit committee should be independent, non-executive members.

In Part 5.3, Principle 7, Practice 28, King IV presents factors that should be considered in concluding whether a member is independent and their categorisation. In Part 5.3, Principle 7, Practice 28 states: The below should not be considered in isolation but with other indicators holistically, and on a substance-over-form basis, when assessing the



independence of a member of the audit committee for purposes of categorization. The member of the audit committee:

- Is a significant provider of financial capital, or ongoing funding to the organisation, or is an officer, employee or a representative of such provider of financial capital or funding;
- If the organisation is a company, participates in a share-based incentive offered by the company;
- If the organisation is a company, owns securities in the company, the value of which is material to personal wealth of the director;
- Has been in the employ of the organisation as an executive manager during the preceding three financial years, or is a related party to such executive manager;
- Has been the designated external auditor responsible for performing the statutory audit for the organisation, or a key member of the audit team of the external audit firm, during the preceding three financial years;
- Is a significant or ongoing professional adviser to the organisation, other than as a member of the board of trustees;
- Is a member of the board of trustees or the executive management of a significant customer of, or supplier to, the organisation;
- Is a member of the board of trustees or the executive management of another organisation which is a related party to the organisation; or
- Is entitled to remuneration contingent on the performance of the organisation.

In the medical scheme's environment, an additional consideration is whether a member of the audit committee has a material relationship with the medical scheme or any of its contractors. It should however be noted that section 36 (10) of the Act states that the board of trustees of a medical scheme shall, subject to the provisions of subsection (13), appoint an audit committee of at least five members of which at least two shall be members of that board of trustees.

A non-executive member of the board of trustees may continue to serve, in an independent capacity, for longer than nine years if, upon an assessment by the board of trustees conducted every nine years, it is concluded that the member exercises objective judgment and there is no interest, position, association or relationship that, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.

22. The term of office of the members of the audit committee should not exceed three years unless they are reappointed. It is recommended that an audit committee member not be appointed for more than two consecutive terms. Not more than two-thirds of the independent audit committee members should retire every two years, to ensure continuity in the audit committee but at the same time to incorporate new ideas into the audit committee. The term of office of the audit committee should be included in the scheme's audit committee charter.

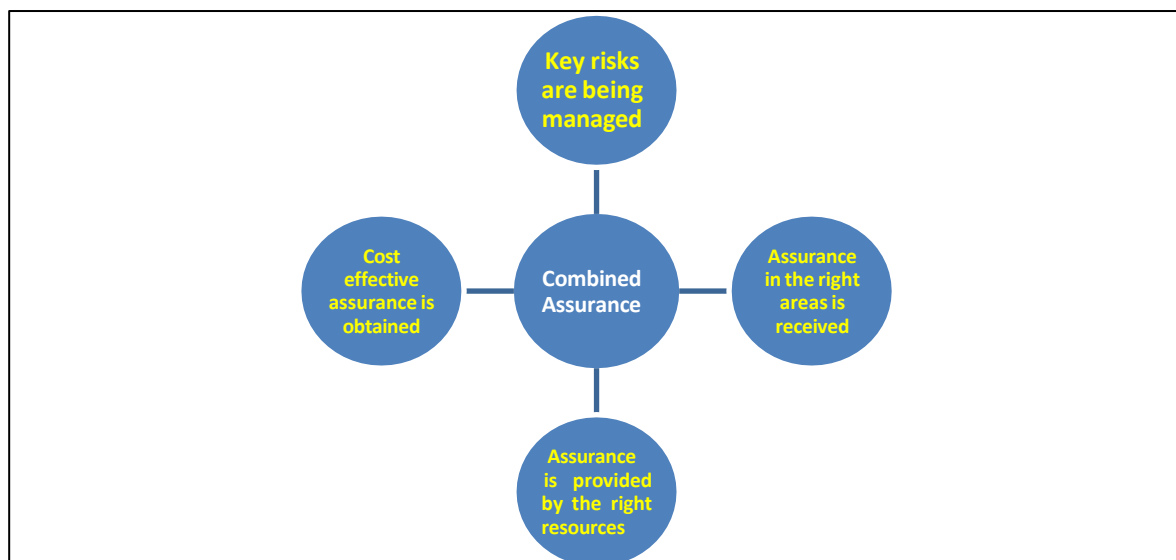
The Audit Committee Chair

23. The chairman should have the requisite business, financial literacy and leadership skills necessary for understanding the function of the audit committee and promoting good communication.
24. In terms of the Act, the chairman of the audit committee is to be appointed by the board of trustees, from the independent committee members; i.e. a trustee may not be the chairman of the audit committee.

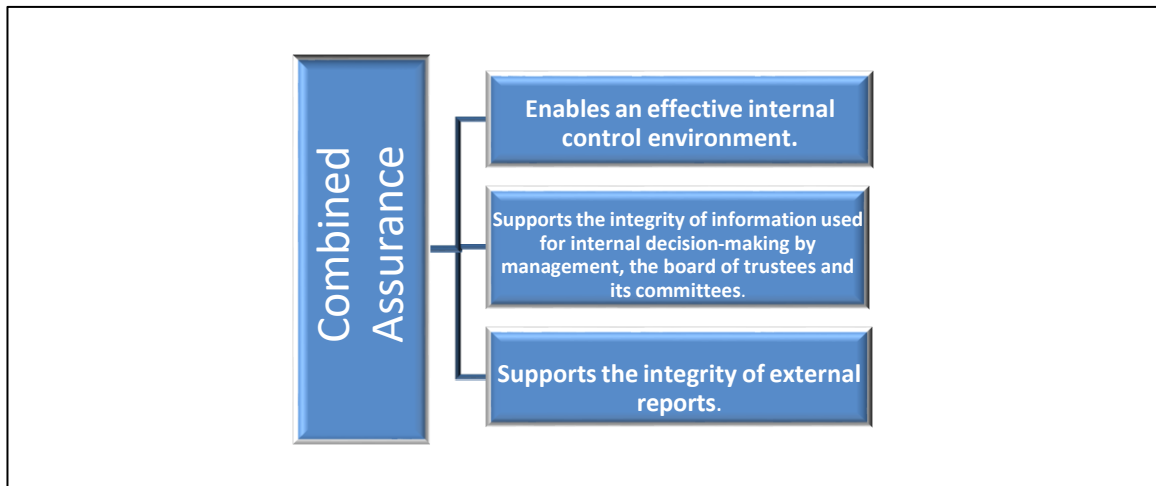
King IV, in Part 5.3, Principle 8, Practice 57, also recommends that the board of trustees should appoint an independent, non-executive member to chair the audit committee (refer to paragraph 21 above for factors that should be considered in order to conclude that a member of the committee is independent).

Combined Assurance

25. As stated previously, section 36(12) of the Act states that one of the roles and responsibilities of the audit committee is 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 and/or its administrator in the day-to-day management of its business.
26. Combined assurance is a process that ensures that a coordinated and combined approach is applied in receiving assurance about whether the scheme's key risks are being managed appropriately. This process ensures that the scheme's assurance providers are working closely, effectively and efficiently to ensure an effective combined assurance model as follows:



27. A robust risk management process is fundamental to an effective combined assurance model.
28. The combined assurance model is considered effective if it achieves the following objectives:



29. King IV identifies combined assurance as a fundamental component of corporate governance. In Part 5.4, Principle 15 (Practice 40), King IV states that:

The board of trustees should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services and functions. The board of trustees should delegate to the audit committee, if in place, the responsibility for overseeing that those arrangements are effective.

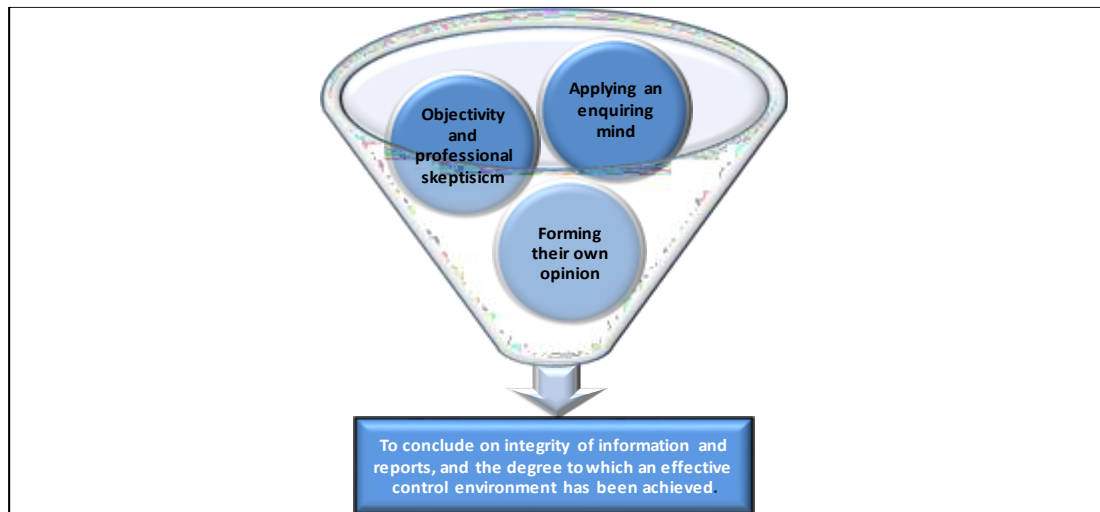
30. King IV, in Part 5.4, Principle 15 (Practices 41 – 42), further states that:

The board of trustees should oversee that the combined assurance model is designed and implemented to cover effectively the organisation's significant risks and material matters through a combination of the following assurance service providers and functions as is appropriate for the organisation:

- The organisation's line functions that own and manage risks;
- The organisation's specialist functions that facilitate and oversee risk management and compliance;
- Internal auditors, internal forensic fraud examiners and auditors, safety and process assessors, and statutory actuaries;
- Independent external assurance service providers such as external auditors;
- Other external assurance providers such as sustainability and environmental auditors, external actuaries, and external forensic fraud examiners and auditors;

- Regulatory inspectors.

31. The board of trustees should, according to King IV [(Part 5.4, Principle 15, Practice 43), assess the output of the scheme's combined assurance, through the following:



32. It is good practice that the combined assurance model and process are supported by a formalised policy and framework. In light of this, it would be good practice for the board of trustees and the audit committee to approve the policy to ensure that there is oversight and alignment of the combined assurance that the scheme has put in place.

33. The framework and policy could include the following principles, for example:

- Articulation of which governance structure will be responsible and articulation of the mandate (methodology and blueprint);
- Articulation of the combined assurance required to be provided. Identification of the assurance providers and the role of each assurance provider;
- Definition of assessment criteria that will be used to assess the quality of assurance;
- Nomination of executive structures that will champion and own the combined assurance process;
- Articulation of how effectiveness of the combined assurance model will be assessed and reported;
- Articulation of a reporting model to management, executive and those charged with governance (TCWG).



External Audit Function

Appointment

34. A medical scheme shall appoint at least one auditor according to section 36(1) of the Act.
35. The audit committee must 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).
36. 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; or
 - 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 90 of the Companies Act.
37. Medical schemes can only appoint auditors authorised for the audit of medical schemes by the Registrar of Medical Schemes.
38. Upon the annual appointment of an auditor, the audit committee needs to ensure that the necessary documentation has been submitted to the Registrar of Medical Schemes and has consequently been approved by the Registrar as per section 36(2) of the Act.
39. If the external auditor resigns or is removed or dismissed, the audit committee should investigate the issues giving rise to such resignation, removal or dismissal and consider whether any action is required.
40. 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.
41. 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 a report was submitted to the Registrar (as is required in terms of section 36(5) (a)).



Terms and Remuneration

42. 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. The audit committee should ensure the coordination and maintenance of a professional relationship between firms where more than one firm is involved.
43. The scope of the external audit should be reviewed by the audit committee. If the audit committee is not satisfied as to the adequacy of the scope, it should request that additional work be undertaken.
44. 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.
45. The audit committee should review and agree to 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

46. The audit committee should have procedures in place 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 judgment or independence.
47. 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 conducting 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 that govern calculation of the audit fees.
48. 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.
49. 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 takes 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.

The audit committee should satisfy itself that any safeguards required by ethical guidance are implemented.

Annual audit cycle and quality of the audit

50. At the start of each annual audit cycle, the audit committee should ensure that appropriate plans are in place for the audit. The audit committees of Public Interest Entity (PIE) Medical Schemes should consider the impact of the Independent Regulatory Board for Auditors (IRBA)'s introduction of mandatory audit firm rotation effective 1 April 2023 on their planning for external auditor engagements. This rule stipulates that the audit firm may not accept the appointment as auditor if that firm has served as the auditor of that company for more than 10 consecutive financial years before the financial year commencing on or after 1 April 2023. The audit firm will only be eligible for appointment after the stipulated cooling-off period.
51. The audit committee should also consider rotation of the individual partner or designated partners of the medical schemes. The Companies Act states that the same individual may not serve as the auditor or designated auditor of a company for more than five consecutive financial years.
52. The audit committee can positively influence the quality of the audit through active engagement with the auditors and through questioning them where there is concern that



the audit quality is inappropriate. The focus should not be on minimizing costs since this may affect the quality.

53. The audit committee should consider whether the auditor's overall work plan, including planned levels of materiality, and proposed resources for executing the audit plan appear consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team. The audit committee should consider evaluating audit quality and defining criteria for measuring the quality of the audit.
54. 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 audit matters;
 - 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; and
 - Monitor management's responsiveness to the external auditors' findings and recommendations.
55. As part of the ongoing monitoring process, the audit committee should review the management letter (or equivalent).
56. 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 conformed to 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 audit matters 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.
57. It is also important for the audit committee of a medical scheme to note some of the requirements imposed by the **International Standards on Auditing (ISA)** on the expected communication from the external auditor to the audit committee. The external auditor is expected to communicate the issues outlined below to the audit committee.



ISA 240 – The auditor’s responsibilities relating to fraud in an audit of financial statements

- a. If the auditor has identified fraud or has obtained information that indicates that fraud may exist, communicate these matters on a timely basis:
 - i. To the appropriate level of management in order to inform those with primary responsibility for the prevention and detection of fraud of matters relevant to their responsibilities.
 - ii. With TCWG if the matters concerned involve management or employees who have significant roles in internal control or others where the fraud results in a material misstatement in the financial statements.
 - iii. With TCWG any other matters related to fraud that are, in the auditor’s judgment, relevant to their responsibilities.

If the auditor suspects fraud involving management, communicate these suspicions to TCWG and discuss with them the nature, timing and extent of audit procedures necessary to complete the audit.

ISA 250 – Considerations of laws and regulations in an audit of financial statements

- a. In relation to reporting non-compliance with laws and regulations (NOCLAR):
 - i. Unless all of TCWG are involved in management of the entity, communicate with TCWG, matters involving non-compliance with laws and regulations that come to the auditor’s attention during the course of the audit, other than when matters are clearly inconsequential.
 - ii. If, in the auditor’s judgment, the non-compliance is believed to be intentional and material, communicate the matter to TCWG, as soon as practicable.
 - iii. If the auditor suspects that management or TCWG are involved, communicate the matter to the next higher level of authority at the entity, if it exists, such as an audit committee or supervisory board (or where no higher authority exists, or if the auditor believes that the communication may not be acted upon, or is unsure as to the person to whom to report, the auditor shall consider the need to obtain legal advice).

ISA 260 (Revised) – Communication to those charged with governance (TCWG)

The auditor shall communicate the following:

- a. The form, timing and expected general content of communications.
- b. Significant findings from the audit. This communication should be in writing if, in the auditor’s professional judgment, oral communication would not be adequate.
(Written communications need not include all matters that arose during the course of the audit.)
- c. Auditor independence when required (e.g. where there are specific requirements or requirements by statute).

The auditor shall communicate to TCWG on a timely basis:

- a. The auditor’s responsibilities in relation to the audit. This may include an understanding of the terms of the engagement. These terms would normally be outlined, annually, in an engagement letter, including the objective of the audit and the responsibilities of the auditor and management.
- b. The form, timing and expected general content of communications with the audit committee.



- c. An overview of the planned scope and timing of the audit. This may include:
 - i. The nature and extent of specialized skills necessary to perform the planned audit procedures;
 - ii. The extent to which the external auditor plans to rely on work performed by the company's internal audit function or others in the audit of the financial statements and internal control over financial reporting;
 - iii. The names, locations, and anticipated responsibilities of any firm or personnel performing audit work in the current period but not employed by the auditor.
 - iv. The auditor's rationale for serving as principal auditor, if significant parts of the work are performed by others; and
 - v. Any significant changes to the original strategy or significant risks and the reasons for such changes.
- d. Significant findings from the audit and the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures:
 - i. When applicable, the auditor is to explain to the audit committee why the auditor considered a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity;
 - ii. Significant difficulties, if any, encountered during the audit;
 - iii. Significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management;
 - iv. Written representations the auditor is requesting; and
 - v. Circumstances that affect the form of the auditor.

ISA 260 – Other matters that the auditor is required to communicate with TCWG

- a. Communicate with TCWG, the responsibilities of the auditor in relation to the financial statement audit, including that:
 - i. The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of TCWG.
 - ii. The audit of the financial statements does not relieve management or TCWG of their responsibilities.
- b. Communicate with TCWG an overview of the planned scope and timing of the audit.
- c. Communicate with TCWG:
 - i. The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, explain to TCWG why the auditor considers a significant accounting practice, which is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity.
 - ii. Significant difficulties, if any, encountered, during the audit.
 - iii. Unless all of TCWG are involved in managing the entity:
 - Significant matters, if any, arising from the audit, that were discussed, or subject to correspondence with management.
 - Written representations that the auditor is requesting.
 - iv. Circumstances that affect the form and content of the auditor's report.
 - v. Other matters, if any, arising from the audit that in the auditor's professional judgment are significant to the oversight of the financial reporting process.



ISA 265 – Communicating deficiencies in internal control to those charged with governance and management

- a. The auditor shall determine whether, on the basis of the work performed, the auditor has identified one or more deficiencies in internal control:
- i. If identified, determine, on the basis of the audit work performed, whether, individually or in combination, they constitute significant deficiencies.
 - ii. If significant, communicate in writing those significant deficiencies in internal control to TCWG on a timely basis.
- b. Communicate to management at an appropriate level of responsibility on a timely basis:
- i. In writing, significant deficiencies in internal control that the auditor has communicated or intends to communicate to TCWG (unless it would be inappropriate to communicate directly to management in the circumstances);
 - ii. Other deficiencies in internal control that have not been communicated to management by other parties, and that, in the auditor's professional judgment, are of sufficient importance to merit management's attention.
- c. Include in the written communication of significant deficiencies in internal control:
- i. A description of the deficiencies and an explanation of their potential effects;
 - ii. Sufficient information to enable TCWG and management to understand the context of the communication. Explain that:
 - The purpose of the audit was for the auditor to express an opinion on the financial statements.
 - The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.
 - The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to TCWG.

ISA 450 – Evaluation of misstatements identified during the audit

- a. In relation to the communication of uncorrected misstatements:
- i. Communicate with TCWG uncorrected misstatements and the effect that they, individually and in aggregate, may have on the opinion in the auditor's report (unless prohibited by law or regulation).
 - ii. Also communicate with TCWG the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and financial statements as a whole.
 - iii. Identify material uncorrected misstatements individually in the auditor's communication.
 - iv. Request that uncorrected misstatements to be corrected.

ISA 505 – External confirmations

- a. If management refuses to allow the auditor to send a confirmation request and the auditor determines that management's refusal is unreasonable, or that alternative procedures do not provide relevant and reliable audit evidence, communicate with TCWG in accordance with ISA 260.



ISA 510 – Initial audit engagements – opening balances

- a. If opening balances contain misstatements that cause material misstatements in the current period's financial statements, communicate the misstatements with the appropriate level of management and TCWG in accordance with ISA 450.

ISA 550 – Related parties

- a. Communicate with TCWG significant matters arising during the audit in connection with the entity's related parties.

ISA 570 (Revised) – Going concern

- a. Communicate with TCWG events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Include the following:
 - i. Whether the events or conditions constitute a material uncertainty.
 - ii. Whether the use of the going concern assumption is appropriate in the preparation and presentation of financial statements.
 - iii. The adequacy of related disclosures in the financial statements.
 - iv. Where applicable, the implications for the auditor's report.

ISA 610 – Using work of internal auditors

- a. In communicating with TCWG an overview of the planned scope and timing of the audit in accordance with ISA 260, communicate how the external auditor has planned to use the work of the internal audit function.
- b. If applicable, in communicating to TCWG an overview of the planned scope and timing of the audit in accordance with ISA 260, communicate the nature and extent of the planned use of internal auditors to provide direct assistance so as to reach a mutual understanding that such use is not excessive in the circumstances of the engagement.

ISA 701 – Communicating Key Audit Matters (KAMs) in the independent auditor's report

- a. The auditor shall communicate to TCWG:
 - i. Those matters the auditor has determined to be KAMs.
 - ii. If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no KAMs to communicate in the auditor's report.

ISA 705 Revised – Modifications to the opinion in the independent auditor's report

- b. When the auditor expects to modify the opinion in the auditor's report, communicate with TCWG the circumstances that led to the expected modification and the proposed wording of the modification.

ISA 706 Revised – Emphasis of matter paragraphs and other matter paragraphs in the independent auditor’s report

- a. If the auditor expects to include an emphasis of matter or another matter paragraph in the auditor’s report, communicate with TCWG regarding this expectation and the proposed wording of this paragraph.

ISA 710 Revised – Comparative information – corresponding figures and comparative financial statements

- a. If the auditor concludes that a material misstatement exists that affects the prior period’s financial statements on which the predecessor auditor had previously reported without modification, communicate the misstatement with the appropriate level of management and, unless all of TCWG are involved in managing the entity, TCWG and request that the predecessor auditor be informed.

ISA 720 Revised – The auditor’s responsibilities relating to other information

- a. Communicate with TCWG certain matters in relation to the auditor’s work on other information in documents containing audited financial statements:
- i. If the auditor identifies a material inconsistency and determines that a revision of the other information is necessary, but management refuses to make the revision.
 - ii. If the auditor concludes that there is a material misstatement of fact in the other information, which management refuses to correct.

Internal Audit Function

58. In Part 5.4, Principle 15, Practice 48, King IV recommends that the board of trustees should delegate oversight of internal audit to the audit committee, if an audit committee is in place. Also refer to section 36(12) of the Act.
59. In Part 5.3, Principle 8, Practice 59(e) King IV recommends that the audit committee discloses its views on the effectiveness of the Chief Audit Executive (CAE) and the arrangements for internal audit. To this end, in accordance with the Institute of Internal Auditors (IIA), the committee should:
- a) Have oversight and approve the internal audit strategy, charter and annual plan;
 - b) Take responsibility for the appointment, appraisal and performance management of the CAE and the internal audit function;
 - c) Ensure that the CAE is afforded sufficient airtime and has access to the audit committee and audit committee chairperson;
 - d) Ensure that, periodically, the CAE meets with the audit committee without management being present;
 - e) Ensure that the internal audit function is empowered to be independent by the scheme’s reporting structures and has appropriate reporting relationships;
 - f) Ensure that the internal audit function is staffed by independent, objective and competent professionals who are able to perform the audits with objectivity;
 - g) Ensure that internal audit findings and recommendations are actioned and



- implemented; and
- h) Ensure that internal audit is quality-oriented and has a robust quality improvement programme.

Controls over financial reporting and fraud

60. King IV (Part 5.3, Principle 8, Practice 54) suggests that whether or not the governance of risk is delegated to the audit committee by a board of trustees, the audit committee should oversee the management of financial and other risks that affect the integrity of external reports issued by the scheme. Section 36(12) of the Act also lists this as one of the responsibilities of an audit committee.
61. In Part 5.3, Principle 8, Practice 59(e), King IV recommends that the audit committee discloses its views on the effectiveness of the design and implementation of internal controls, and on the nature and extent of any significant weaknesses in the design, implementation or execution of internal financial controls that have resulted in material financial loss, fraud, corruption or error. To this end:
- a) The audit committee should ensure that the scheme has policies in place to prevent and identify fraud. The committee together with management should ensure that appropriate and adequate controls are in place and that processes are in place to ensure that appropriate action is taken effectively and efficiently in instances where fraud is detected.
 - b) The audit committee should be satisfied that the scheme has established an “ethics/complaint hotline” that employees of the scheme and other stakeholders can use to raise concerns in a confidential manner about possible transgressions in financial reporting and other issues:
 - i. The ethics/complaint hotline process should allow for appropriate investigations and follow-up actions to take place once an incident has been reported.
 - ii. A process should be in place to ensure that reported incidents, investigations, follow-up actions, results and conclusions are reported timeously to the audit committee, employees and other appropriate governance structures.
 - c) The audit committee should be aware of these main areas of fraud:
 - i. Financial statement fraud – this area of fraud would include intentional financial misstatements or intentional omissions from financial statements;
 - ii. Misappropriation of assets, including fraud, forgery and theft;
 - iii. Corruption, including kickbacks, complex fraud structures, manipulation to get contracts or tenders, bribes and unlawful or inappropriate exertion of influence.
62. Even though the audit committee should always be alert about all potential areas of fraud, it is financial statement fraud that should be foremost on the audit committee’s



agenda. Therefore, the audit committee should ensure:

- a) It has a thorough understanding of management's internal controls over financial reporting and assesses the effectiveness and adequacy of these.
 - b) It has a thorough understanding of the effective design and appropriateness of the controls regarding the prevention, detection and investigation of financial statement fraud.
63. The audit committee should also be aware of the South African legislation designed to combat fraud:
- a) Prevention and Combating of Corrupt Activities Act;
 - b) Financial Intelligence Centre Act;
 - c) Prevention of Organised Crime Act;
 - d) Protected Disclosures Act;
 - e) Electronic Communications and Transactions Act; and the
 - f) Promotion of Administrative Justice Act.
64. If the scheme operates beyond South African borders, the audit committee should also have an awareness of those laws and regulations in the countries and jurisdictions that the scheme is operating within.
65. In line with King IV recommendations, the audit committee should ensure that it has appropriate oversight over the finance function in order to allow it to express its views on the effectiveness of the Chief Financial Officer (CFO) (Head of Finance) and the finance function.

Audit communication and disclosure

66. The annual 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.
67. King IV states that the following should be disclosed in relation to each committee of the board of trustees (Part 5.3, Principle 8, Practice 50):
- a) Its overall role and associated responsibilities and functions;
 - b) Its composition, including each member's qualifications and experience;
 - c) Any external advisers or invitees who regularly attend committee meetings;
 - d) Key areas of focus during the reporting period;
 - e) The number of meetings held during the period and attendance at those meetings; and
 - f) Whether the committee is satisfied that it has fulfilled its responsibilities in



accordance with its terms of reference for the reporting period.

68. 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.
69. In addition to disclosures recommended by King IV in Part 5.3, Principle 8, Practice 50, the following should also be disclosed in relation to the audit committee (King IV, Part 5.3, Principle 8, Practice 59(a)):
 - a) A statement as to whether the audit committee is satisfied that the external auditor is independent of the organisation. The statement should specifically address:
 - i. 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;
 - ii. The tenure of the external audit firm and, in the event of the firm having been involved in a merger or acquisition, the tenure of the predecessor firm;
 - iii. The rotation of the designated external audit partner; and
 - iv. 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.
 - b) Significant matters that the audit committee has considered in relation to the AFS, and how these were addressed by the committee;
 - c) 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;
 - d) The audit committee's views on the effectiveness of the CAE and the arrangements for internal audit;
 - e) 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 weakness in the design, implementation or execution of internal financial controls that have resulted in material financial loss, fraud, corruption or error;
 - f) The audit committee's views on the effectiveness of the CFO and the finance function;
 - g) The arrangements in place for combined assurance and the committee's views on its effectiveness.



APPENDIX

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 an overseer and 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 and rules.
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 medical scheme industry, and the scheme's business, operations and risks.

Authority

6. The audit committee has the authority to execute the committee's statutory obligations in terms of the Medical Schemes Act and King IV. 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 or administrator of the scheme and all employees are directed to cooperate 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 for discharging 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; these members shall not have a material relationship with the medical scheme or any of its contractors.
9. Audit committee members shall be free from any business or other relationship that could materially interfere with the exercising of their independent judgment 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 has sufficient qualifications and experience to fulfil its duties, including but not limited to an understanding of International Financial Reporting Standards (IFRS) and any other applicable financial or sustainability reporting standards. Audit committee members should keep up to date with developments that affect the required skills set.
11. The quorum for the transaction of business shall be three members of the audit committee, representative of trustees and independent members, present throughout the meeting of the committee. The majority of the members in attendance should be independent of the board.
12. The duration of membership of the audit committee shall be a three-year term, and not more than two 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 appointed by the board from time to time.
16. The chairman of the audit committee should, in conjunction with the scheme secretary, participate in setting and/or agreeing to the agenda of the committee meetings.
17. The chairman must review and approve audit committee meeting minutes prior to distribution. The minutes must be formally approved by the audit committee at its next scheduled meeting.
18. The chairman must report to the board of trustees after each meeting of the audit committee and distribute minutes of the meeting together with other written information if necessary.
19. At a minimum, the chairman of the committee [or another member of the committee] shall attend the board meeting at which the annual financial statements (AFS) 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 or 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 or she thinks it is necessary.

Attendance at Meetings

24. The audit committee shall, at its entire discretion, be entitled to invite any person to attend and be heard at meetings of the audit committee. People attending by invitation may only 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, the 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 make a meaningful contribution 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 members of the board 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 representative who could, in his or her 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 him 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 or her secretary).

Frequency of Meetings

30. Meetings of the committee shall be held as frequently as the committee considers appropriate (convened by the chairman of the committee). The committee shall normally meet not less than three times a year and, where appropriate, meetings should be scheduled to 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. A record of minutes that reflects the proceedings of the meeting must be kept for all meetings.
33. The minutes of an audit committee meeting 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;
 - People attending by invitation may not vote; and
 - In the event of an equal number 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 and the chairman of the audit committee will set the contents of the agenda for each meeting. Meeting agendas should be prepared and distributed at least seven days in advance, together with sufficient background information to enable the audit committee members to prepare for the meetings appropriately. 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 preliminary approval by the chairman of the audit committee.
37. Unless specified differently in these terms of reference, meetings and proceedings of the committee will be governed by the rules of the scheme that regulate 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 are listed below.

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 for the integrated report and how management is managing these risks effectively
- Understand which key performance indicators are reported and the assurance to be provided on any of these
- 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 (IT) 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 they relate to financial reporting
 - Have oversight of IT risks as they relate 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 minimize such risks
 - Review any legal matters that could significantly affect the financial statements
- a) Annual Financial Statements (AFS)
- Review and comment on the 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 or 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 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 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 areas of judgement; 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 its 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 AFS for approval to the board
- b) Trustees' responsibility statement
- Review the trustees' responsibility statement to be included in the AFS, including the statement on the effectiveness of the systems of internal control, prior to publication, and in particular 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' responsibility 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
 - 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; and
 4. Considering non-compliance with the law and regulations of other applicable statutes.
 5. Understand and consider investigations into material tip off reports

 - Review the scheme's risk management assessment• Receive and deal appropriately with any concerns or complaints relating to:
 1. The accounting practices and internal audit of the scheme;
 2. The content or auditing of the scheme's financial statements;
 3. The internal financial controls of the scheme; or
 4. Any related matter.

 - 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
- Approve an internal audit charter that defines the role and associated responsibilities and authority of internal audit, including addressing its role within combined assurance and the internal audit standards to be adopted
- Ensure that an effective and sufficiently robust combined assurance model is applied to provide a coordinated approach to all assurance activities, so



as to enable the board of trustees to be able to place reliance on the combined assurance underlying the statements that the board makes concerning the integrity of the scheme's external reports. The Committee shall also in its annual Audit Committee report, which forms part of the Annual Financial Statements and Integrated Report, disclose its views on the effectiveness of the arrangement in place for combined assurance.

39.3 External Audit

- Consider the appointment of the external auditor from the list of auditors authorised by the Registrar of Medical Schemes and assess the independence of the external auditor
- Oversee the process for selecting the external auditor and make appropriate recommendations through the board of trustees to the members for them to consider at the AGM
- Ensure that the name of the individual registered auditor who undertakes the audit has been specified in the terms of engagement and that the appointment of the auditor has been approved by the Registrar of Medical Schemes
- Discuss with the external auditor, before the audit commences, the engagement letter, and the nature and scope of the audit, and ensure no unjustified restrictions or limitations have been placed on the scope
- Review the auditor's quality control procedures and the steps taken by the auditor to respond to changes in regulatory and other requirements
- Review the external auditor's management letter and the response of the administrators, principal officer or trustees (as appropriate)
- Review the external auditor's audit report as well as the quality and effectiveness of the external auditor
- Monitor and report on the independence of the external auditor
- 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
- 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
- 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 a report was submitted to the Registrar

39.4 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, 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 have 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 or 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 or trustees (as appropriate) to any internal audit recommendations

39.5 Finance Function

- Review the expertise, resources and experience of the scheme or 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 CFO and recommend to the board if any changes are necessary.

40. ***Risk Management (if appropriate)***¹

- Oversee the development, implementation and annual review of a risk

¹ ¹The board is responsible for the governance of risk (which should be documented in the board charter). The board can delegate this responsibility 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 or charter that sets out elements such as membership, meetings and duties.



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 for 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 that face 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 that 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 the 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

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 behavior.
- 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*

- Conduct an annual review of the committee's 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 that the board is aware of matters that may significantly affect the financial condition or affairs of the business
- Make recommendations to the board concerning the adoption of the AFS and the integrated report and any other matters arising from the above responsibilities
- At a minimum, provide the following information in the integrated report:
 - a) The audit committee's overall role and associated responsibilities and functions;
 - b) Its composition, including each member's qualifications and experience;
 - c) Any external advisers or invitees who regularly attend committee meetings;
 - d) Key areas of focus during the reporting period;
 - e) The number of meetings held during the period and attendance at those meetings;
 - f) Whether the committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference for the reporting period;
 - g) A statement as to whether the audit committee is satisfied that the external auditor is independent of the organisation. The statement should specifically address:
 - i. The policy and controls that deal with the provision of non-audit services by the external auditor, and the nature and extent of such services rendered during the financial year;
 - ii. The tenure of the external audit firm and, in the event of the firm having been involved in a merger or acquisition, the tenure of the predecessor firm;
 - iii. The rotation of the designated external audit partner; and
 - iv. Significant changes in the management of the organisation during the external audit firm's tenure that may mitigate the attendant risk of familiarity between the external auditor and management.
 - h) Significant matters that the audit committee has considered in relation to the AFS and how these matters have been addressed by the committee;
 - i) 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;
 - j) The audit committee's views on the effectiveness of the CAE and the arrangements for internal audit;
 - k) 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 weakness in the design, implementation or execution of internal financial controls that have resulted in material financial loss, fraud, corruption or error;

- l) The audit committee's views on the effectiveness of the Chief Financial Officer (CFO) and the finance function;
- m) The arrangements in place for combined assurance and the committee's views on its effectiveness.

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.