

## **SA CORPORATE REAL ESTATE LIMITED**

### **AUDIT AND RISK COMMITTEE**

#### **TERMS OF REFERENCE**

##### **1. PURPOSE AND OBJECTIVE**

- 1.1 The Audit and Risk Committee (the Committee) is constituted as a statutory committee<sup>1</sup> of SA Corporate Real Estate Limited (the Company or where appropriate, the Group) in respect of its statutory duties in terms of section 94(7) of the Companies Act, 71 of 2008 (the Act) and as a committee of the Board of Directors (the Board) in respect monitoring and overseeing the Group's risk-, information technology and compliance governance, and such other duties assigned to it by the Board.
- 1.2 The Committee shall perform its mandate listed below for the Company and perform, on behalf of the subsidiaries of the Company that are required in terms of the Act to have audit committees<sup>2</sup>, the functions listed in section 94(7) of the Act.
- 1.3 The Committee is appointed by the shareholders of the Company for the primary purpose of assisting the Board in:
  - 1.3.1 ensuring the continued independence of the independent auditor;
  - 1.3.2 overseeing the external audit process, and the scope and effectiveness of the external audit function for the Company and the Group;
  - 1.3.3 ensuring the quality and integrity of the Company's integrated reporting, incorporating the financial statements, including the consolidated Group financial statements, and external reports and disclosures in respect of its financial results;
  - 1.3.4 applying an appropriate and relevant combined assurance model to ensure a coordinated approach to all assurance activities;
  - 1.3.5 reviewing the expertise, resources and experience of the finance function, and the appropriateness of the expertise and experience of the Chief Financial Officer (CFO);
  - 1.3.6 overseeing the effectiveness of the Group's internal controls and internal audit function; and
  - 1.3.7 ensuring that the Group implements and maintains an effective enterprise-wide risk management framework, complies with laws, regulations and relevant best practice codes, and that information technology is governed in support of the Group's strategy and direction, and to further specifically oversee the management of financial and other risks that affect the integrity of external reports and disclosures issued by the Group and to oversee compliance with legal and

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<sup>1</sup> Section 94(2) of the Companies Act, 71 of 2008 (the Act)

<sup>2</sup> Section 94(2)(b) of the Act

regulatory requirements to the extent that it might have an impact on financial statements.

- 1.3 Except with respect to the appointment, fees and terms of engagement of the independent auditor, the decisions of the Committee do not reduce the individual and collective responsibilities of Board members in regard to their fiduciary duties and responsibilities<sup>3</sup>.
- 1.4 The purpose of these Terms of Reference is to set out the Committee's mandate as well as the requirements for its composition and meeting procedures. These Terms of Reference are subject to the provisions of the Act, the Company's Memorandum of Incorporation (MoI), the JSE Listings Requirements (JSELR), the King IV Report on Corporate Governance for South Africa 2016 (to the extent that its recommended practices have been adopted by the Company) and any other applicable law or regulatory provision relevant to the mandate of the Committee.
- 1.5 The Committee does not assume the functions of management, which remain the responsibility of the executive directors and other members of senior management.

## **2. CONSTITUTION AND MEMBERSHIP**

- 2.1 The Committee shall comprise no less than three members nominated by the Board and elected annually by shareholders, all of whom shall be independent non-executive directors<sup>4</sup>. The members of the Committee as a whole must have sufficient qualifications and experience to fulfil their duties and are required to keep up-to-date with developments affecting their required skill set.
- 2.2 The Chairman of the Committee shall be an independent non-executive director and shall be appointed by the Board. The Chairman of the Board should not be a member of the Committee.
- 2.3 To maintain the minimum number of members, as provided for in 2.1 above, the Board must fill any vacancy on the Committee within 40 business days after the vacancy arises<sup>5</sup>.
- 2.4 The Chief Executive Officer (CEO), CFO, Chief Operating Officer, Head of Corporate Finance and Chief Risk Officer shall be permanent attendees at Committee meetings, but may not vote on any matter placed before the Committee.
- 2.5 The Committee may invite any individual, including any other director or employee of the Company and representatives of the external- and internal audit functions, to attend Committee meetings, but such invitees may not vote on any matter placed before the Committee.
- 2.6 The Group Company Secretary shall be the Committee's secretary.

## **3. MANDATE<sup>6</sup>**

### **3.1 Independent External Audit<sup>7</sup>**

The Committee shall:

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<sup>3</sup> Section 94(10) of the Act

<sup>4</sup> Sections 94(2) and 94(4) of the Act

<sup>5</sup> Section 94(6) of the Act

<sup>6</sup> Section 94(7) of the Act

<sup>7</sup> Section 94(8) of the Act

- 3.1.1 consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting (AGM) of the Company, in relation to the appointment, re-appointment and removal of the Company's independent external auditors. The Committee shall oversee the selection process for new external auditors and if the external auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 3.1.2 ensure that the appointment of the external auditor complies with the Act, the Auditing Profession Act and other relevant legislation or regulation;
- 3.1.3 oversee the relationship with the external auditors including (but not limited to):
  - (a) determining their remuneration, whether fees for audit or non-audit services;
  - (b) approving their terms of engagement, including any engagement letter(s) issued at the start of each audit and the scope of the audit;
  - (c) assessing their independence and objectivity annually taking into account relevant professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
  - (d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditors and the Company (other than in the ordinary course of business);
  - (e) agreeing with the Board a policy on the employment of former employees of the Company's external auditors, if any, and then monitoring the implementation of this policy;
  - (f) monitoring the external auditors' compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company and the Group compared to the overall fee income of the firm, office and partner and other related requirements;
  - (g) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditors on their own internal quality-control procedures;
  - (h) considering the risk of the withdrawal of the Company's external auditors from the market; and
  - (i) at least annually, obtaining and reviewing a report by the external auditor describing:
    - (i) the independent auditor's internal quality-control procedures;
    - (ii) any material issues raised by the most recent internal quality-control review or peer review, or by any inquiry or investigation conducted by governmental or professional authorities during the preceding five years with respect to independent audits carried out by the external auditor, and any steps taken to deal with such issues; and
    - (iii) all relationships between the external auditor and the Group.

- 3.1.4 meet regularly with the external auditors, including at the planning stage before audit and after audit, at the reporting stage. The Committee shall meet the external auditors at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 3.1.5 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 3.1.6 review the findings of the audit with the external auditors. This shall include but not be limited to, the following:
  - (a) a discussion of any major issues which arose during the audit;
  - (b) a discussion and review of any problems or difficulties with management's response to audit issues, and oversee any disagreements between management and the external auditors if they arise;
  - (c) any accounting and audit judgements; and
  - (d) levels of errors identified during the audit.
- 3.1.7 review the effectiveness of the external audit process annually;
- 3.1.8 review any representation letter(s) requested by the external auditors before they are signed by management;
- 3.1.9 review the management letter and management's response to the external auditors' findings and recommendations;
- 3.1.10 distinguish between audit and non-audit services, and develop and implement a policy on the supply of non-audit services by the independent auditors, taking into account any relevant ethical guidance on the matter; and
- 3.1.11 pre-approve the contracts for non-audit services to be rendered by the external auditor and consider whether the external auditor's provision of non-audit services is compatible with the external auditor's independence.

## **3.2 Financial Reporting**

The Committee shall:

- 3.2.1 monitor the integrity of the financial statements of the Company (and consolidated Group statement), including its annual and half-yearly reports, preliminary results announcements and any other formal announcement or trading statement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain;
- 3.2.2 review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature, provided that such monitoring and review is not inconsistent with any requirement for prompt reporting under the JSELR;
- 3.2.3 ensure that an appropriate and relevant combined assurance model is applied to provide a coordinated approach to all assurance activities, and in particular:

- (a) ensure that the combined assurance received is appropriate to address all the significant risks facing the Company and the Group; and
  - (b) monitor the relationship between the external assurance providers and the Company;
- 3.2.4 understand the scope of the internal and external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management responses;
- 3.2.5 receive and review any disclosure from the Company's CEO or CFO made in connection with the certification of the Company's annual financial statements (AFS);
- 3.2.6 receive and consider the JSE's annual report on proactive monitoring of financial statements of listed entities;
- 3.2.7 review major issues regarding accounting principles and financial statement presentations, including any significant changes in the Group's selection or application of accounting principles; major issues as to the adequacy of the Group's internal controls, and any special audit steps adopted in light of material control deficiencies;
- 3.2.8 review analyses prepared by management and/or the external auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of financial statements;
- 3.2.9 review the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company and the Group; and
- 3.2.10 The Committee shall review and challenge where necessary:
  - (a) the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Group;
  - (b) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditors;
  - (d) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
  - (e) all material information presented with the financial statements, such as the operating and financial review, the corporate governance statement (insofar as it relates to the matters within the Committee's purview) and relevant disclosures in the Group's annual ESG Report, to ensure no conflict with financial information.

### **3.3 Whistle-blowing and fraud detection and prevention**

The Committee shall:

- 3.3.1 consider the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, and satisfy itself that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 3.3.2 satisfy itself that there is a process in place to be informed of any reportable irregularities (as identified in the Auditing Profession Act) identified and reported by the external auditor;
- 3.3.3 consider the Group's procedures for detecting and preventing fraud and bribery and receiving reports on non-compliance;
- 3.3.4 receive and deal appropriately with any concerns or complaints, whether from within or outside the Group, or on its own initiative, relating to<sup>8</sup>:
  - (a) the accounting practices and internal audit;
  - (b) the content or auditing of the financial statements;
  - (c) the internal financial controls; or
  - (d) any related matter

### **3.4 Internal Audit**

The Committee shall:

- 3.4.1 monitor and review the effectiveness of the Group's internal audit function in the context of the overall internal controls and risk management systems, including giving consideration to periodic independent quality review of the function as deemed appropriate;
- 3.4.2 approve the appointment or removal of the internal auditor;
- 3.4.3 consider and approve the remit of the internal audit function and ensure it has adequate resources, skills, qualifications and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 3.4.4 approve the internal audit charter and perform an annual review of the charter, making recommendations for changes if required;
- 3.4.5 review and approve the annual internal audit plan and fees;
- 3.4.6 evaluate the formal review of internal financial controls conducted annually by the internal audit function on behalf of the Board and report to the Board and shareholders on the effectiveness of the Group's internal controls;
- 3.4.7 review all reports from the internal auditor, including managements responsiveness to findings and recommendations;

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<sup>8</sup> Section 94(7)(g) of the Act

- 3.4.8 meet with the internal auditor at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the internal auditor shall have the right of direct access to the Chairman of the Committee and the Chairman of the Board; and
- 3.4.9 perform an annual assessment of the internal audit function, with input from the external auditor.

### **3.5 Risk Management**

The Committee shall:

- 3.5.1 Annually consider the Group's enterprise-wide risk management framework, and make appropriate recommendations to the Board regarding the Group's risk management policy and plan.
- 3.5.2 Evaluate the nature and extent of the risks the Group faces, including emerging risks, in pursuit of its strategic objectives, and recommend appropriate risk appetite thresholds and risk tolerance limits to the Board for approval.
- 3.5.3 Monitor managements' implementation and execution of effective risk management in line with the Group's approved risk management policy and plan.
- 3.5.4 Monitor and oversee that the Group's risk management processes result in it:
  - (a) assessing risks and opportunities emanating from the triple context<sup>9</sup> and the various capitals<sup>10</sup> the Group uses and affects;
  - (b) assessing potential upside or opportunities presented by risks;
  - (c) assessing the Group's dependence on resources and relationships in the various capitals it uses and affects;
  - (d) designing and implementing the appropriate risk responses;
  - (e) assessing the Group's business continuity arrangements; and
  - (f) integrating and embedding risk management in business activities and organisational culture.
- 3.5.5 Consider the need to receive periodic reasonable independent assurance on the effectiveness of risk management within the Group.
- 3.5.6 Review the adequacy of the Group's insurance coverage and make appropriate recommendations to the Board for approval.
- 3.5.7 Recommend the allocation of Group risks to other Board Committees to the Board for approval and monitor and oversee that such other Board Committees support this Committee and the Board in ensuring effective risk management oversight in relation to Group top risks within each Board Committee's scope (risk allocated to each committee).

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<sup>9</sup> King IV triple context: (i) the economy, (ii) society and (iii) natural environment

<sup>10</sup> (i) Financial Capital, (ii) Human Capital, (iii) Social and Relationship Capital, (iv) Manufacturing Capital, (v) Natural Capital, and (vi) Intellectual Capital

3.5.8 Regarding **Compliance matters**, the Committee shall:

- (a) monitor and oversee the Group's processes for compliance with laws, regulations and best practice codes relevant to the Group;
- (b) recommend a policy that articulates and gives effect to the Group's direction on compliance and identifies its compliance landscape;
- (c) monitor managements' implementation and execution of effective compliance management;
- (d) receive and consider reports on compliance matters, including on matters pertaining to material litigation and the Group's whistle-blower hotline activity; and
- (e) consider the need to receive periodic reasonable independent assurance on the effectiveness of risk management within the Group.

3.5.7 Regarding **Information Technology** matters, the Committee shall assist the Board in carrying out its information and communication technology responsibilities by ensuring the ethical and responsible use of technology and information, compliance with relevant laws, and the management of material information and communication technology risks by:

- (a) recommending a policy that articulates and gives effect to the Group's direction on information and communication technology;
- (b) monitoring management's implementation and execution of effective information and communication technology management;
- (c) receiving and considering reports on information and communication technology matters from the Group's IT Steering Committee; and
- (d) considering the need to receive periodic reasonable independent assurance on the effectiveness of information and communication technology management within the Group.

### **3.6 Finance Function**

The Committee shall:

- 3.6.1 at least once a year, review the appropriateness of the expertise, experience and adequacy of resources of the Group's finance function; and
- 3.6.2 consider, on an annual basis, and satisfy itself of the appropriateness of the expertise of the CFO and will report to shareholders in the IAR that it has executed this responsibility.

### **3.7 Other duties and responsibilities**

In addition to its statutory mandate, the Committee shall perform such functions as assigned to it by the Board and in accordance with its delegated authority in terms of the Board-approved Approvals Framework, as determined from time to time.

- 3.8 The Committee must establish an annual work plan for each year to ensure that all relevant matters as per its mandate are covered by the agendas of the meetings planned for the year.

#### **4. REPORTING**

- 4.1 The Chairman of the Committee shall report to the Board on the activities of the Committee after each meeting, drawing matters within its mandate to the attention of the Board as occasion requires.
- 4.2 The Committee shall make recommendations to the Board as it deems appropriate, on any area within its mandate.
- 4.3 The Committee shall annually review, and recommend to the Board, the Group's IAR, subject to input being received from the Company other Board committees on those sections of the IAR which falls within their respective remits.
- 4.4 The Committee shall compile a report to shareholders on its activities to be included in the Company's AFS<sup>11</sup>:
- 4.4.1 describing how the Committee carried out its functions;
  - 4.4.2 stating whether the Committee is satisfied that the external auditor was independent of the Company; and
  - 4.4.3 commenting in any way the Committee considers appropriate on the financial statements, the accounting practices and the internal financial controls of the Company and the Group.
- 4.5 The Chairman of the Committee shall attend the AGM of the Company and be prepared to respond to any shareholder questions on the Committee's activities.

#### **5. MEETINGS AND PROCEEDINGS**

- 5.1 Meetings of the Committee will be held as the Committee deems necessary, provided that the Committee shall endeavour to meet at three times annually. Meetings should be organised in order to maximise attendance. The Chairman of the Committee or any member of the Committee, with the consent of the Committee Chairman, may call a special meeting at any other time.
- 5.2 Notice of each meeting of the Committee, confirming the venue, time and date and enclosing an agenda of items to be discussed shall, other than under exceptional circumstances, be forwarded to each member of the Committee not less than seven calendar days prior to the date of the meeting.
- 5.3 The meetings of the Committee may be held in person or by means of electronic conferencing as the circumstances may require, provided that the required quorum is met.
- 5.4 The quorum for decisions of the Committee shall be a majority of non-executive directors present for that particular decision, one of whom shall be the Chairman of the Committee. A decision shall be deemed as passed if a majority vote on the matter for decision is passed by the members present at the Committee.

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<sup>11</sup> Section 94(7)(f) of the Act

- 5.5 A decision that could be voted on at a meeting of the Committee may instead be adopted by written consent of a quorum of members, given in person, or by electronic means, provided that each member received notice of the matter to be decided. A decision made in such manner has the same effect as if it had been approved at a meeting.
- 5.6 Where decisions are required by way of written resolution, a quorum shall constitute a majority of non-executive directors, one of whom shall be the Committee's Chairman.
- 5.7 Unless varied by these Terms of Reference, meetings and proceedings of the Committee will be governed by the Company's MoI regulating the meetings and proceedings of directors and committees.
- 5.8 The Committee's secretary shall take minutes of meetings. Minutes of all meetings shall be circulated to all the members of the Committee. Any director may, provided that there is no conflict of interest and with the agreement of the Chairman, obtain copies of the Committee's minutes.
- 5.9 The Committee shall be entitled to place reliance on the work and reports of any employee, assurance provider, advisor or committee of the Board that has responsibility for any function falling within the mandate of the Committee.

## **6. REMUNERATION**

Having regard to the functions performed by the members of the Committee in addition to their functions as directors, and pursuant to the specific power conferred upon the Board by the MoI of the Company, members of the Committee may be paid such remuneration as shall be recommended by the Board, and approved by the Company's shareholders, annually.

## **7. LIMITED LIABILITY**

- 7.1 The deliberations of the Committee do not reduce the individual and collective responsibilities of Board members with regard to their fiduciary duties and responsibilities, and they must continue to exercise due care, skill and judgment, in accordance with their legal and statutory obligations<sup>12</sup>.
- 7.2 Subject to the above provisions and any relevant legislation and codes of best practice, the members of the Committee shall not attract any personal liability arising from their appointment and the Company shall indemnify members of the Committee to the extent possible in terms of its approved directors' and officers' liability insurance coverage.

## **8. GENERAL**

- 8.1 The Committee, in carrying out its tasks under these Terms of Reference, may obtain such outside or other independent professional advice as it reasonably considers necessary to carry out its duties.
- 8.2 The Board will ensure that the Committee has reasonable access to professional advice, both internal and external to the Company, in order to perform its duties.
- 8.3 The Committee may require from any director, prescribed officer or employee of the Company or the Group any information or explanation necessary for the performance of the Committee's functions.

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<sup>12</sup> Section 94(10) of the Act

- 8.4 These Terms of Reference may be amended as required, subject to the approval of the Board, and will be reviewed on an annual basis for relevance and accuracy.
- 8.5 The Committee shall assess its and its members' effectiveness at least once every two years.

**-END-**