

CHARTER OF THE AUDIT AND RISK MANAGEMENT COMMITTEE
(Approved by the Council 7 June 2013)

1. NAME

The Committee is known as the AUDIT AND RISK MANAGEMENT COMMITTEE OF THE UNIVERSITY OF THE FREE STATE.

2. STATUS

2.1 The Audit and Risk Management Committee functions as a separate committee of the University Council.

2.2 The Audit and Risk Management Committee is formally instituted by the Council, which ratifies its charter.

3. OVERALL PURPOSE/OBJECTIVES

Definition: The Committee's primary task relates to the responsibility to provide the Council with assurance on the application of principles and best practices associated with the Council's accountability with regard to all elements of corporate governance.

The Committee is responsible for performing the following tasks (among others):

- 3.1. Assist the Council in fulfilling its role of providing assurance on corporate governance.
- 3.2. Facilitate effective working relationships between the Council, management and the external and internal auditors.
- 3.3. Review the financial statements and consider all factors and risks that may affect the integrity of the financial statements.
- 3.4. Consider the need for summarised information and engaging external auditors to provide assurance on the summarised results.

- 3.5. Review its own Code of Business Conduct, the system of internal control, the management of all financial risks, information systems, accounting practices, the University's processes for monitoring compliance with laws and regulations (where applicable), and the University's auditing processes.
- 3.6. Ensure that each Committee member understands the detailed responsibilities of Committee members as well as the institution's business, operations and risks in order to perform his or her duties effectively.

4. COMPOSITION

- 4.1 The Audit and Risk Management Committee consists of a minimum of four (4) Council members and a maximum of six (6). Committee members may not be full-time staff members or students.
- 4.2 The majority of these members must be financially literate. The Committee as a whole should have a thorough understanding of the complexities of International Financial Reporting Standards (IFRS), South African Statements of Generally Accepted Accounting Practice (GAAP), Global Reporting Initiative (GRI) standards and any other financial reporting frameworks and policies and procedures of the UFS.
- 4.3 The Audit and Risk Management Committee is appointed by the Council.
- 4.4 The Chairperson of the Audit and Risk Management Committee is appointed by the Council, and he/she should not be the Chairperson of the Council.
- 4.5 The Council reserves the right to remove any members from the Committee and to fill any vacancies created by such removal.
- 4.6 Meetings of the Audit and Risk Management Committee, as arranged by the Chairperson, may be attended by representatives of the external auditors, the Executive Committee and its officers, and the internal auditor.
- 4.7 If the Chairperson of the Audit and Risk Management Committee is absent from a meeting, the members present will appoint a Chairperson from among themselves.
- 4.8 The University of the Free State will manage the secretarial duties related to Audit and Risk Management Committee meetings.
- 4.9 The Audit and Risk Management Committee meets on a regular basis, with a minimum of two meetings per year. The Committee determines the dates of meetings, taking into consideration the dates on which interim and final reports of the external auditors become available.
- 4.10 Special meetings may be called as follows (after consultation with the Chairperson):
 - * with the Council or any member thereof;
 - * with members of the Committee;
 - * with the external auditors; and/or
 - * with the internal auditor.

- 4.11 Minutes will be kept of meetings and reports will be submitted to the Council as soon as possible after the conclusion of the meeting.
- 4.12 A minimum of three members of the Council must be present at a meeting to form a quorum.
- 4.13 Matters are decided by a majority of votes and, should a tie of votes occur, the Chairperson does not have a casting vote.

5. AUTHORITY

- 5.1 The Audit and Risk Management Committee, under direction of the Chairperson as authorised by the Council, has the power to:
 - 5.1.1 conduct interviews with other Council members, the Executive Committee, executive officers, advisers or staff members of the University;
 - 5.1.2 liaise directly with the external and/or internal auditors;
 - 5.1.3 carry out such investigations as may be considered necessary and to obtain advice from external experts;
 - 5.1.4 co-opt suitable persons to serve on the Audit and Risk Management Committee when specific expertise is required; and
 - 5.1.5 seek any information from external parties.
- 5.2 The Audit and Risk Management Committee:
 - 5.2.1 may lay claim to reasonably affordable resources required to perform its duties properly; and
 - 5.2.2 has access to records and information belonging to the University.
- 5.3 Vacancies
 - 5.3.1 If a vacancy occurs on the Audit and Risk Management Committee, the Chairperson of the Audit and Risk Management Committee must inform the Council without delay.
 - 5.3.2 The Council must fill the vacancy on receipt of such notification, or within a reasonable period thereafter.

6. ROLES AND RESPONSIBILITIES

The basic tasks, roles and responsibilities of the Audit and Risk Management Committee include the following:

6.1 External audit matters

- 6.1.1 Make recommendations to the Council on the appointment, reappointment and removal of external auditors. The recommendations should be based on an assessment of the firm and individuals' qualifications, expertise, resources, effectiveness and independence.
- 6.1.2 Make recommendations to the Council on the external auditors' terms of engagement and remuneration. The Committee should satisfy itself that the fee payable is commensurate with the auditors' ability to conduct an effective audit.
- 6.1.3 Assess the scope of the proposed audit and the way in which the external audit will be approached, and ensure that all critical risk areas will be addressed in an effective manner.
- 6.1.4 Define a policy (for Council approval) about the terms under which the external auditors may perform non-audit services, and the nature and extent of such services.
- 6.1.5 Ensure that the annual financial statements contain a description of non-audit services rendered by the external auditors, with an explanation of their nature and quantity.
- 6.1.6 Verify and evaluate the effectiveness of the external auditors' performance.
- 6.1.7 Ensure that the external audit is not limited or hampered in any way.
- 6.1.8 Review and monitor, on an annual basis, the external auditors' independence and objectivity, and the effectiveness of the audit process. Rotation of individual engagement partners enhances actual and perceived independence.
- 6.1.9 Consider the acceptability of materiality levels (for the purpose of making decisions) applicable to the scope of audit procedures and the errors that must be reported.
- 6.1.10 Record the dates on which reports must be handed in and annual financial statements and other applicable requirements must be finalised.

6.1.11 Identify steps that must be taken to remain aware of problems encountered in the previous year in order to avoid doing unnecessary auditing work.

6.1.12 Consider the following aspects:

- (i) The effectiveness of internal accounting controls as identified during the external audit and management's follow-up.
- (ii) Significant differences of opinion between the external auditors and management.
- (iii) Any material unsolved accounting and audit problems identified during the external audit.
- (iv) Changes in the scope or approach of the external audit in response to changing circumstances or problems experienced, seen against the background of the original audit plan.

6.1.13 Review the audit results (after completion of the audit) as well as the quality and contents of the financial information presented, before issuing the annual financial statements and submitting a report in this regard.

6.1.14 Ensure that management responds to recommendations by the external auditors. The Audit and Risk Management Committee may request management, during Committee meetings, to report on the progress they have made and/or their reaction with regard to the recommendations of the external auditors. During Committee meetings, the Audit and Risk Management Committee may also request the external auditors to indicate whether they are satisfied with management's reaction to their recommendations.

6.2 Financial reporting

6.2.1 General

- (i) Ascertain the expertise, resources and experience of the finance function, with particular focus on the senior members of management responsible for the financial function.
- (ii) Identify important risks to which the University is exposed and confirm that the internal control systems are adequate and functioning effectively.
- (iii) Ensure corrective action is instituted regarding any fraud, illegal acts, deficiencies in internal control or other similar issues, in co-operation with the internal and external auditors.

- (iv) Review significant accounting and reporting requirements, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- (v) Query management and the internal and external auditors about significant risks, exposures and assurance regarding mitigating strategies.
- (vi) Review any legal matters that could have a significant impact on the financial statements.

6.2.2 Annual financial statements

- (i) Review the integrity of the annual financial statements and determine whether they are complete and consistent with the information known to Committee members; assess whether the financial statements reflect appropriate accounting principles.
- (ii) Evaluate the judgements and reporting decisions made by management. These include changes in accounting policies, decisions requiring a major element of judgement and the clarity and completeness of proposed disclosures. Explanations must be obtained from management on accounting records that show significant or unusual transactions, and the views of the external auditors must be taken into account in these instances.
- (iii) Pay attention to the disclosures of and charges for complex and/or unusual transactions associated with restructuring and derivatives.
- (iv) Focus on areas in which judgement is important, for example: areas involving valuation of assets and liabilities; warranty, product or environmental liability; litigation reserves; and other commitments and contingencies.
- (v) Discuss with management members and the external auditors their review of the financial statements and the results of the audit.
- (vi) Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge of the institution and its operations.

6.2.3 Internal auditing matters

- (i) Ensure that the duties of the internal audit function are fulfilled.
- (ii) Ensure that the internal audit function is independent and has the necessary resources at its disposal.
- (iii) Review the activities and organisational structure of the internal audit function and ensure that no unjustified restrictions or limitations are imposed.
- (iv) Evaluate the suitability, qualifications and abilities of the internal auditing staff and concur in the appointment, replacement, reassignment or dismissal of the internal auditor.
- (v) Provide a forum for direct reporting of the internal auditor's findings.
- (vi) Evaluate the efficiency and effectiveness of the internal audit function and submit reports to the Council on Internal Audit's assessment of the adequacy of internal controls.
- (vii) Meet separately with the internal auditor and/or discuss any matters that the Committee or auditors believe should be discussed in private.
- (viii) Ensure that significant findings and recommendations made by the internal auditor are received and discussed on a timely basis.
- (ix) Ensure that management responds to recommendations made by the internal auditor.
- (x) Oversee co-operation between the external and internal auditors to avoid overlapping of audit functions.

6.2.4 Risk management

Financial reporting and risks

- (i) Oversee financial and risk management controls and ensure that the controls:
 - provide guidance on embedding internal controls in processes and policies to ensure relevance over time;
 - follow a risk-based approach; and

- consider not only the likelihood of all risks materialising, but also the costs of operating certain controls relative to the benefit of managing these related risks, i.e. the cost and integrity benefit analysis.

Review internal controls

- (ii) Oversee policies that provide assurance regarding the protection of the integrity of the UFS's financial information. An integral part of the responsibilities of management is to ensure that an internal control system has been designed and that it is functioning effectively.

Management should at least annually submit a written assurance to the Audit and Risk Management Committee on the internal control measures in place.

- (iii) Task Internal Audit with performing the above-mentioned review, if necessary. The Audit and Risk Management Committee should determine the nature and extent of the review of internal financial controls to be performed by management.
- (iv) Reach a conclusion on the effectiveness of the UFS's internal controls and provide the Council with an applicable annual report. The Audit and Risk Management Committee should holistically consider all information brought to its attention, including communications with and reports from Internal Audit, other assurance providers, management and the external auditors.
- (v) Submit reports to the Council on control problems and other inadequacies that resulted in actual material loss, including fraud and/or material errors. These issues should also be reported in the statement by the Council.

Fraud risks

- (vi) Review arrangements made by the UFS to enable employees and external whistleblowers (including customers and suppliers) to submit confidential reports about possible improprieties related to financial reporting, non-financial issues and/or compliance with laws and regulations that may have a direct or indirect effect on the UFS.
- (vii) Ensure that the UFS has appropriate arrangements in place for a balanced and independent investigation of whistleblowing reports, and for taking any action necessary as a result of such reports.

- (viii) Be aware of any amendments to the UFS's Code of Conduct as it applies to financial reporting, and satisfy itself that management monitors compliance with the Code of Conduct.
- (ix) Consider matters that may result in material misstatements in the financial statements due to fraud.
- (x) Receive and deal appropriately with any complaints (whether from within or outside the UFS) related to the accounting practices and internal audit of the UFS, the content or auditing of its financial statements, and/or any relevant matter.

Information technology (IT) risks

- (xi) Be aware that IT risk is a crucial element of risk management at the UFS.
- (xii) Play a supervisory role regarding:
 - IT risks and controls;
 - business continuity and data recovery related to IT; and
 - information security and privacy.

Other responsibilities

- (xiii) Oversee the development and annual review of a policy and plan for risk management to be recommended for approval by the Council.
- (xiv) Monitor implementation of the policy and plan for risk management by means of risk management systems and processes. Ensure that the plan is integrated in the day-to-day activities of the University and that risk management is performed on a continuous basis.
- (xv) Make recommendations to the Council concerning the University's levels of risk and the institution's tolerance of and appetite for risk.
- (xvi) Ensure that management considers and implements appropriate risk responses.
- (xvii) Review and approve the University's recovery plan annually.
- (xviii) Express the Committee's formal opinion to the Council on the effectiveness of the system and process of risk management.
- (xix) Review reporting on risk management that will be included in the integrated report to ensure that it is timely, comprehensive and relevant.
- (xx) Perform other activities related to risk management as requested by the Council.

Reporting to the Council

Submit reports to the Council on how the Audit and Risk Management Committee is fulfilling its duties. This should include a report on the execution of its responsibilities. The Committee should at least do the following:

- (i) Update the Council on Committee activities and make appropriate recommendations on a regular basis.
- (ii) Ensure that the Council is aware of matters that may significantly influence the financial condition or affairs of the institution and the accounting practices and effectiveness of the internal controls of the University.
- (iii) Draw up a statement to indicate whether the Audit and Risk Management Committee is satisfied that the auditor is independent.
- (iv) Perform other supervisory functions as requested by the full Council.
- (v) Institute special investigations, if necessary, and hire special counsel or experts to provide assistance, if appropriate.
- (vi) Review and update the charter; receive approval for changes from the Council.
- (vii) Evaluate the Committee's own performance on a regular basis.

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COMMITTEE WORK PROGRAMME AND SELF-EVALUATION GUIDE:

Audit and Risk Management Committee members can use this form periodically to determine whether they are fulfilling all their responsibilities. This form provides best practice guidelines and identifies the persons who should be involved.

Please indicate whether practices are being followed (yes or no). Also, list the follow-up steps, if applicable.

Points refer to charter	Also involved	Applied practice? Yes/No Not applicable	in Follow-up steps, if necessary
2. STATUS			
The Council established the Audit and Risk Management Committee, which functions as a separate subcommittee of the Council.	Council		
The Council approves the charter of the Audit and Risk Management Committee, and reviews and adjusts it from time to time, if necessary. These adjustments are also approved by the Council.	Council		
The Committee's work is guided by a written charter, which outlines the applicable tasks and responsibilities.			

4. COMPOSITION			
The size of the Committee is commensurate with the size of the University. (The optimal number of members is between four and six, excluding representatives of management.)	Council		
All the Committee members are independent from management.	Council		
Committee members are appointed by the Council.	Council		
Period of service/membership is at the discretion of the Council, but continuity is given due consideration while the Committee is in the process of obtaining a fresh perspective.	Council		
5. AUTHORITY			
The Council authorises the Committee to obtain any information from any councillor, member of management, employee, external or internal auditor, or outside party.	Council		
The Council authorises the Committee to obtain advice from skilled external sources and to co-opt suitable candidates, if necessary.	Council		
The Council has sufficient resources to enable it to fulfil its duties and responsibilities.	Chairperson of the Committee		

Membership			
The experience and qualifications of Committee members are commensurate with the duties of the Committee, and the members have the ability to understand financial statements.	Council/Chairperson of the Committee		
From time to time, the Council reviews the mixture of experience and capabilities in the Committee to ensure that a proper balance is being maintained.	Council/Chairperson of the Committee		
New Committee members receive sufficient background information and training to enable them to adequately execute their tasks and meet their responsibilities.	Chairperson of the Committee/Committee secretary		
6. ROLES AND RESPONSIBILITIES			
The following section of the guide can serve as an annual work plan.			
External audit			
Evaluate the external auditors' proposed audit scope and approach. Enquire about the reasons for changing the audit plan.	External auditors		
Check and evaluate the effectiveness of the work done by the external auditors.	External auditors		
Evaluate the adequacy of the audit procedures to determine whether procedures for testing control measures and the management of	External auditors		

accounting records are included.			
Ensure that the external auditors are not restricted or handicapped in any way.	External auditors		
Enquire about the degree of co-ordination between the work of the external auditors and the internal audit function to ensure that it is sufficient in the current circumstances.	External auditors/Internal Audit		
Hold regular private meetings with the external auditors.	External auditors		
Give feedback on the reports of the external auditors to management and ensure that management reacts to these findings.	External auditors/management		
Consider the independence of the external auditors, taking into account the plans of management to use the audit firm for other services during the year, as well as the type of services that will be rendered and the estimated costs.	External auditors/management		
Consider the acceptability of the materiality levels that would be applied when deciding about the scope of audit procedures, as well as the level of errors that will be reported.	External auditors		
Be aware of the deadlines for the submission of reports and the finalisation of financial statements and other applicable requirements.	External auditors/management		
Identify steps that should be taken to avoid problems that occurred in the previous year in order to prevent unnecessary auditing work.	External auditors/management		
Consider the effectiveness of the internal accounting controls as identified by external audit, as well as the applicable follow-up procedures.	External auditors/Rector		
Consider any significant differences between the external auditors and the	External auditors/Rector		

Rector.			
Consider any material unsolved accounting and audit problems identified during the external audit.	External auditors/management		
Consider the appointment or reappointment of the external auditors, taking into account the budgeted audit fees. Make recommendations to the Council.	Council		
Internal control			
Evaluate the policies and procedures implemented by the executive management to ensure that the accounting and internal control systems are functioning properly.	Management		
Identify the important risks to which the University is exposed and ensure that the applicable internal controls are adequate and functioning properly.	Management		
Evaluate the shortcomings identified in the account and internal control system, as well as the steps taken by management to rectify these shortcomings.	Management		
Monitor the ethical behaviour of the leadership.	Leadership		
Monitor the control measures applicable to electronic data processing and computer security to determine if these measures have been reviewed.	Management/ICT services		
	Management/Internal Audit/external auditors		
Determine whether the recommendations by the internal and external	Management/external		

auditors about internal controls have been executed by management.	auditors		
Meet with the legal adviser of the University to discuss legal aspects that may have a significant impact on the financial statements of the University.	Legal adviser		
Financial reports			
Determine whether financial statements are complete and in accordance with the information available to the Committee.	Management		
Judge whether the financial statements comply with generally accepted accounting practices and other prescriptions followed during the compilation of the financial statements.	Management		
Review the audit results and the quality and contents of the financial information presented prior to the issuing of the financial statements after completion of the audit review, and submit a report in this respect to the Council for consideration at a meeting where the financial statements will be approved.	Management		
Compile a summarised annual report about the activities of the Audit and Risk Management Committee during the year and the recommendations made and decisions taken by the Committee, and submit this report to the Council prior to the approval of the annual financial statements.	Management		
Engage with management and the external auditors about the effectiveness of the accounting principles followed by the University as well as changes in accounting principles.	Management/external auditors		
Focus, for instance, on the valuation of assets and liabilities, large accounting accruals, reserves or other estimates done by management	Management		

that will have a material impact on financial statements.			
Focus on complex and/or unusual transactions.	Financial services		
Query management and the external auditors about any accounting or reporting matters and their resolution.	Management/external auditors		
Judge whether the other information in the financial year-end report is clear and in accordance with the information in the financial statements.	Management/external auditors		
Internal Audit			
Review the activities and structure of Internal Audit and approve the charter of Internal Audit.	Internal Audit		
Evaluate personnel provision and training, as well as the budget of the internal audit function.	Internal Audit		
Provide a forum for direct reporting from the internal auditor.	Internal Audit		
Evaluate the effectiveness and efficiency of the internal audit function.	Internal Audit		
Evaluate the adequacy of the audit procedures to determine whether procedures are included for testing controls and controlling accounting records.	Internal auditor		
Ensure that Internal Audit is actively involved in the financial reporting process.	Internal Audit		
Review the Internal Audit Plan with the internal auditor, especially with regard to involvement in control systems and the drafting of financial reports.	Internal Audit		

Look at the changed Internal Audit Plan.			
Look at Internal Audit's findings and ensure that management reacts to these findings.	Internal Audit/management		
Hold regular private meetings with the internal auditor.	Internal Audit		
Performance audit			
Judge the measures and procedures for ensuring economic, efficient and effective management.	External and Internal Audit		
Review the findings of the internal and external auditors concerning the performance audit.	External and Internal Audit		
Review the reporting in the financial statements on economic, efficient and effective utilisation of the University's resources.	External and Internal Audit		
Complying with laws and regulations			
Evaluate the procedures used by management for monitoring compliance with laws and regulations at the University. If another management committee is doing this evaluation, the implications of applicable laws and regulations for financial statements should be considered.	Management		
Evaluate (with the assistance of management and the legal adviser) the findings of any regulation-related investigations and consider the	Management/legal		

implications thereof for the financial statements.	adviser		
Complying with the Code of Conduct			
Evaluate, from time to time, the programme for monitoring compliance with the Code of Conduct implemented by management.	Management		
7. FUNCTIONING OF THE AUDIT AND RISK MANAGEMENT COMMITTEE			
Meetings			
Meet on a regular basis, at least twice a year. The dates of the meetings are determined by the Committee, taking into consideration the dates on which the interim and final reports of the external auditors will be available.			
Convene special meetings, if circumstances require it.			
Draw up written agendas for the meetings.	Secretary		
Send out agendas prior to the meetings taking place, with sufficient background information on the items listed in the agenda. This enables Committee members to prepare for the meetings.	Secretary		
Record all the proceedings/decisions of the meetings (i.e. keep minutes).	Secretary		
Provide regular feedback to the Council on the Committee's activities.	Council		

Maintaining quality			
Ensure that the Committee has sufficient resources for the execution of its duties and responsibilities.	Chairperson of the Committee		
Pay attention to the ongoing training needs of Committee members.	Chairperson of the Committee		
Evaluate the efficiency of each of the individual Committee members.	Chairperson of the Committee		
Evaluate the performance of the Committee, from time to time.	Chairperson of the Committee		

Sources:

1. Charter of the Audit and Risk Management Committee
2. Audit and Risk Management Committee – good practices for meeting market expectations (PricewaterhouseCoopers)