

## **HAREL MALLAC & CO. LTD**

### **TERMS OF REFERENCE FOR THE AUDIT COMMITTEE\***

#### **1. Constitution**

- It is hereby established an Audit Committee ('Committee') that shall assist the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards.
- The Committee should not perform any management functions or assume any management responsibilities. It provides a forum for discussing business risk and control issues for developing relevant recommendations for consideration by the board.
- The Committee should mainly make recommendations to the Board for its approval or final decision.
- The membership, resources, responsibilities and authorities (composition, functions and operation) of the Committee to perform its role effectively, is stipulated in these terms of reference, which may be amended by the board as and when required.
- The Committee is constituted in terms of the requirements of sound corporate governance practices and operates within that framework.

#### **2. Membership**

- 2.1 The members shall consist of a minimum of three directors appointed by the board, the majority of whom shall be non-executive directors and (where possible) shall be independent non-executive directors.
- 2.2 The board shall appoint a chairperson from the non-executive members of the Committee.
- 2.3 The chairperson of the board shall not be eligible to be appointed as chairperson of the Committee.
- 2.4 The chairperson shall hold office until the next annual meeting. He shall be re-eligible.
- 2.5 The Board shall have the power at any time to remove any members from the Committee and to fill any vacancies created by such removal.

#### **3. Secretary**

The company secretary shall be the secretary of the Committee.

## 4. Responsibilities of the committee

### 4.1 Auditors and external audit

- The Committee may be requested to recommend to the board which firm(s) should be appointed as external auditor(s). Several firms should be screened and the Committee should obtain written or verbal proposals to enable it to arrive at its recommendation.
- The Committee will:
  - i. Evaluate the independence and effectiveness of the external auditor(s) and consider any non-audit services rendered by such auditors as to whether this substantively impairs their independence;
  - ii. Evaluate the performance of the external auditor(s);
  - iii. Consider and make recommendations on the appointment and retention of the external auditor(s), and any questions of resignation or dismissal of the auditor(s);
  - iv. Discuss and review, with the external auditor(s) before the audit commences, the auditor(s) engagement letter, the terms, nature and scope of the audit function, procedure and engagement, the audit fee, and ensure co-ordination (where more than one audit firm is involved) and maintenance of a professional relationship between them;
  - v. Negotiate procedures, subject to agreement, beyond minimum statutory and professional duties - there are certain minimum non-negotiable procedures required from the external auditors;
  - vi. Agree to the timing and nature of reports from the external auditor(s);
  - vii. Consider any problems identified in going concern or statement of internal control;
  - viii. Make suggestions as to the problem areas that the audit can address;
  - ix. Consider any accounting treatments, significant unusual transactions, or accounting judgements, that could be contentious;
  - x. Identify key matters arising in the current year's management letter and satisfy itself that these are being properly followed up;
  - xi. Consider whether any significant ventures, investments or operations are not subject to external audit;
  - xii. Review overall audit role, explore objectives, minimise duplication, discuss implications of new auditing standards and ensure that the external audit fee will sustain a proper audit and provide value for money;
  - xiii. Agree to the timing and nature of reports from the external auditor(s); and
  - xiv. Obtain assurance from the external auditor(s) that adequate accounting records are being maintained.

## 4.2 Financial statements

The Committee will examine and review the annual financial statements, the interim reports, the accompanying reports to shareholders, the preliminary announcements of results and any other announcement regarding the company's results or other financial information to be made public, prior to submission and approval by the board, focusing particularly on:

- The implementation of new systems;
- Tax and litigation matters involving uncertainty;
- Any changes in accounting policies and practices;
- Major judgmental areas;
- Significant adjustments resulting from the audit;
- The basis on which the company has been determined a going concern;
- Capital adequacy;
- Internal control;
- Compliance with accounting standards, local and international, compliance with stock exchange and legal requirements;
- The efficiency of major adjustments processed at year end;
- Compliance with the financial conditions of loan covenants; and
- Reviewing special documents such as prospectuses as and when prepared.

## 4.3 Internal control and internal audit

An important role of the committee will be to set up, monitor and supervise the effective function of the internal audit, ensuring that the roles and functions of the external audit with internal audit are sufficiently clarified and coordinated to provide an objective overview of the operational effectiveness of the company's systems of internal control and reporting. This will include:

- Evaluating the performance of internal audit;
- Reviewing the internal audit function's compliance with its mandate as approved by the Committee;
- Reviewing the effectiveness of the company's systems of internal control, including internal financial control and business risk management and maintaining effective internal control systems;
- Considering the appointment, dismissal or re-assignment of the head of the internal audit function;
- Reviewing and approving the internal audit charter, internal audit plans and internal audit's conclusions with regard to internal

- control;
- Reviewing the adequacy of corrective action taken in response to significant internal audit findings;
- Reviewing significant matters reported by the internal audit function;
- Reviewing the objectives and the operations of the internal audit function;
- Assessing the adequacy of performance of the internal audit function, and the adequacy of available internal audit resources;
- Reviewing the co-operation and co-ordination between the internal and external audit functions and coordinating the formal internal audit work plan with external auditors to avoid duplication of work;
- Reviewing significant differences of opinion between management and the internal audit function;
- Maintaining proper and adequate accounting records;
- Evaluating the independence and effectiveness of the internal auditors;
- Controlling the overall operational and financial reporting environment;
- Safeguarding company's assets against unauthorised use or disposal;
- Directing and supervising investigations into matters within its scope, for example, evaluations of the effectiveness of the company's internal control, cases of employee fraud, misconduct or conflict of interest.

## **5. Reporting and accountability**

- 5.1 The chairperson of the committee shall account to the board for its activities and make recommendations to the board concerning the adoption of the annual and interim financial statements and any other matters arising from the above responsibilities.
- 5.2 The chairperson (or, in his/her absence, an alternate member) of the committee shall attend the annual meeting to answer questions concerning matters falling within the ambit of the Committee.

## **6. Activities of the Committee**

In discharging its responsibilities, the Committee will:

### **6.1 Financial statements**

- Review the quality of financial information, interim and financial statements and other public and regulatory reporting;
- Review the annual report and accounts taken as a whole, to ensure

they present a balanced and understandable assessment of the position, performance and prospects of the company;

- Review the external auditor(s) proposed audit certificate;
- Discuss problems and reservations arising from the audit, and any matters the auditor(s) may wish to discuss (in the absence, where requested by the Committee, of executive directors, and any other person who is not a member of the Committee);
- Review the external auditors' management letter and management response; and
- Review the credibility, independence and objectivity of the auditor(s), taking into account their audit and non-audit fees. Where the auditors also supply a substantial volume of non-audit services to the company, the Committee should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity with value for money.

## 6.2 Internal control and internal audit

- Review the company's statement on internal control systems prior to endorsement by the board, and in particular to review:
  - (i) the procedures for identifying business risks and controlling their impact on the company;
  - (ii) the company's policies for preventing or detecting fraud;
  - (iii) the company's policies for ensuring that the company complies with relevant regulatory and legal requirements;
  - (iv) the operational effectiveness of the policies and procedures;
- consider whether or not the objectives, organisation, staffing plans, financial budgets, audit plans and standing of the internal audit function provide adequate support to enable the Committee to meet its objectives;
- review the results of work performed by the internal audit function in relation to financial reporting, corporate governance, internal control, and any significant investigations and management responses;
- review co-ordination between the internal audit function and the external auditors and deal with any issues of material or significant dispute or concern;
- review such significant transactions not directly related to the company's normal business as the Committee might deem appropriate;
- review significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees or the company;
- review the controls over significant risks; and consider other relevant

matters referred to it by the board.

- 6.3 The Committee, in carrying out its duties under these terms of reference, will have due regard for the principles of governance and code of best practice as contained in the Mauritius Report on Corporate Governance 2003.

## **7. Authority to the committee and resources available to it**

The Committee, in carrying out its tasks under these terms of reference:

- 7.1 Is authorised to investigate any activity within its terms of reference;
- 7.2 May, at the discretion of the Committee, require other employees of the company to attend meetings or parts of meetings;
- 7.3 May consult with and seek any information it requires from any employees, and all employees shall be required to co-operate with any request made by the committee in the course of its duties;
- 7.4 Shall at least once a year meet with external auditors without any executive member of the board in attendance; and
- 7.5 Shall at least once a year meet with the internal auditors without any executive member of the board in attendance.

## **8. Meetings**

- 8.1 Meetings of the committee will be held as frequently as the Committee considers appropriate, but it will normally meet not less than four times a year.
- 8.2 The board or any member thereof, including members of the committee, the external auditors, and the head of internal audit may call further meetings.
- 8.3 Reasonable notice of meetings and the business to be conducted shall be given to the members of the Committee, the chairperson of the board, the chief executive, executives and managers responsible for finance, the head of internal audit and the external audit partners to make proposals as necessary.

## **9. Quorum**

The quorum for decisions of the committee shall be any two members of the Committee present throughout the meeting of the Committee.

## **10. Attendance**

- 10.1 The finance directors, senior audit partner in charge of the external audit and head of internal audit shall be in attendance at meetings of the committee and shall have unrestricted access to the chairperson or any other member of the Committee as is required in relation to any matter falling within the remit of the

committee.

- 10.2 The chairperson, at his/her discretion, may invite other executives to attend and to be heard at meetings of the committee.
- 10.3 No attendee shall have a vote at meetings of the Committee.

## **11. Minutes and Proceedings**

- 11.1 The committee secretary shall take minutes of meetings. These shall be reviewed and approved by the members of the Committee.
- 11.2 The minutes of all meetings of the Committee, or summaries thereof, shall be submitted to the board at the immediate following board meeting, the agenda for each such board meeting shall provide an opportunity for the chairperson of the committee to report orally on any matters of importance as well as on the Committee's findings and shall recommend actions.
- 11.3 Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the company's constitution regulating the meetings and proceedings of directors and committees.

## **12. Remuneration**

- 12.1 Having regard for the functions performed by the members of the Committee in addition to their functions as directors and in relation to the activities of the Committee and pursuant to the specific power conferred upon the board by the constitution of the company, members of the Committee shall be paid such special remuneration in respect of their appointment as shall be fixed by the board.
- 12.2 The chairperson of the Committee shall, in addition to his or her remuneration as member, receive a further sum as determined by the board.
- 12.3 Such special remuneration in terms hereof shall be in addition to the annual fees payable to directors.

## **13. General**

- 13.1 The Committee, in carrying out its tasks under these terms of reference, may obtain such outside or other independent professional advice as it considers necessary to carry out its duties.
- 13.2 The Board will ensure that the Committee will have access to professional advice both inside and outside the Company in order for it to perform its duties.
- 13.3 These terms of reference may be amended as required, subject to the approval of the board.

## **ADDENDUM TO THE TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**

### **Ethics**

There are a number of statutory, common law and other requirements that cover the ethical behaviour of directors, managers and officers of companies. In addition, the company can establish a clearly defined and documented code of ethics. The directors must declare the nature and extent of their interest in contracts.

The Committee will be responsible for:

- i. Monitoring the ethical conduct of the company, its executives and senior officials;
- ii. Reviewing any statements on ethical standards or requirements for the company and assisting in developing such standards and requirements;
- iii. Compliance with the requirements of the articles of association;
- iv. Compliance with the law and regulations of any other applicable statute and of controlling bodies;
- v. Identification of any violations of ethical conduct; and
- vi. Environmental and social issues.

The Committee will also give recommendations on any potential conflict of interest or questionable situations of a material nature.