



The South African Institute of Chartered Accountants

CORPORATE GOVERNANCE GUIDE

**AUDIT COMMITTEES
FOR
MEDICAL SCHEMES**

Issued March 2004

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.

COPYRIGHT © 2004

THE SOUTH AFRICAN INSTITUTE OF CHARTERED
ACCOUNTANTS

Copyright in all publications originated by The South African Institute of Chartered Accountants rests in the Institute. Apart from the extent reasonably necessary for the purposes of research, private study, personal or private use, criticism, review or the reporting of current events, as permitted in terms of the Copyright Act (No. 98 of 1978), no portion may be reproduced by any process without written permission.

ISBN 0-86983-390-1

THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS
P O BOX 59875, KENGRAY, 2100

Contents

Preface	
Definitions	.01
Introduction	.02 – .09
The audit committee and its purpose	.10 – .11
Membership, procedures and resources	
- Membership	.12 – .16
- Meetings of the audit committee	.17 – .20
- Resources	.21 – .23
- Skills, experience and training	.24 – .25
Relationship with the board of trustees	.26 – .31
Role and responsibilities	
- Financial reporting	.32 – .35
- Internal financial controls and risk management systems	.36 – .38
- The internal audit process	.39 – .43
- The external audit process	.44
- <i>Appointment</i>	.45 – .49
- <i>Terms and remuneration</i>	.50 – .53
- <i>Independence, including the provision of non-audit services</i>	.54 – .59
- <i>Annual audit cycle</i>	.60 – .64
Communication with members	.65 – .67

Appendix:

Specimen terms of reference for an audit committee

PREFACE

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

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 Corporate Governance for South Africa 2002.

Although Audit and Accounting Guides do not have the authority of statements of South African Auditing Standards or Statements of Generally Accepted Accounting Practice, in the event of significant deviation from the guidance given, and should the actions of a member or associate be questioned, the member or associate may be required to demonstrate that such deviation was justified.

Audit committees

.01 Definitions

‘The Act’ means the Medical Schemes Act, 1998, including the regulations

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

‘Audit Committee’ means a committee appointed by the Board in terms of section 36(10) of the Act

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

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

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

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

Introduction

- .02 This guidance is designed to assist the board of trustees of medical schemes in properly structuring their audit committees, and to assist members serving on audit committees of medical schemes in carrying out their role.
- .03 The guide is based on best practice followed in respect of corporate governance. Best practice goes beyond meeting the essential requirements; boards of trustees need to consider in detail what arrangements for its audit committee are best suited for its particular circumstances. Audit committee arrangements need to be proportionate to the task, and will vary according to the size, complexity and risk profile of the medical scheme.
- .04 While all trustees have a duty to act in the interests of the scheme, the audit committee has a particular role, acting independently from the board of trustees, to ensure that the interests of members are properly protected in relation to financial reporting and internal control.
- .05 All trustees remain equally responsible for the scheme’s affairs as a matter of law. The audit committee, like other committees to which particular responsibilities are delegated, remains a committee of the board of trustees. Any disagreement within the board of trustees, including disagreement between the audit committee’s members and the rest of the board of trustees, should be resolved at board of trustees level.
- .06 Nevertheless, this guidance requires a separate section within the trustees’ report describing the role, responsibilities and activities of the audit committee. This requirement deliberately highlights the role of the audit committee and gives it an authority that it might otherwise lack.
- .07 The guidance contains recommendations about the conduct of the audit committee’s relationship with the board of trustees, with the principal officer and internal and external auditors. However, the most important features of this relationship cannot be put into a code of practice: a frank, open working relationship and a high level of mutual respect are essential, particularly between the audit committee chairperson and the board of trustees chairperson, the principal officer or the administrator (where

applicable). The audit committee must be prepared to take a robust stand, and all parties must be prepared to make information freely available to the audit committee, to listen to their views and to talk through the issues openly.

- .08 Medical schemes can be either self-administered or administered by third parties and the Guide may need to be adapted for the different models. The trustees of the self-administered schemes are non-executives in terms of the Act. The Accounting Officer is the Principal Officer in terms of the Act and can also be an employee of the scheme. The Principal Officer is therefore part of the operational structure and oversees the activities of the scheme. In particular, the trustees are under an obligation to ensure the audit committee is kept properly informed, and should take the initiative in supplying information rather than waiting to be asked. The board of trustees should make it clear to administrators and staff that they must cooperate with the audit committee and provide it with any information it requires. In addition, board of trustee members will have regard to their common law duty to provide the audit committee with all the information they need to discharge their responsibilities.
- .09 Many of the core functions of audit committees set out in this guidance are expressed in terms of ‘oversight’, ‘assessment’ and ‘review’ of a particular function. It is not the duty of audit committees to carry out functions that properly belong to others, such as the scheme’s trustees in causing the preparation of the annual financial statements, the internal auditors in the preparation of the internal audit work plan or the external auditors in the planning or conducting of external audits. To do so could undermine the responsibility of the trustees and auditors. Audit committees should, for example, review the effectiveness of the system and allocation of responsibilities for the day-to-day monitoring of financial controls but they should not seek to do the monitoring themselves.

The audit committee and its purpose

- .10 The Medical Schemes Act 131 of 1998, as amended, requires that the board of trustees establish an audit committee, the main role and responsibilities of which should be:
- to assist the board of trustees in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied by that medical scheme or its administrator in the day-to-day management of its business,
 - to facilitate and promote communication and liaison regarding the matters referred to above or a related matter, between the board of trustees, principal officer, administrator and, where applicable, the internal audit staff of the medical scheme,
 - to recommend the introduction of measures which the committee believe may enhance the credibility and objectivity of financial statements and reports concerning the affairs of the medical scheme, and
 - to 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.
- .11 The membership, resources, responsibilities and authorities of the committee are stipulated in its terms of reference (also referred to as an audit committee charter), which may be amended by the board of trustees as and when required. The audit committee is constituted in terms of the requirements of sound corporate governance practices and operates within that framework.

Membership, procedures and resources

Membership

- .12 The Medical Schemes Act 131 of 1998, as amended, requires an audit committee of at least five members of which at least two shall be members of the board of trustees. The majority of committee members including the chairperson may not be officers/trustees of the scheme or the administrator of the scheme, the controlling company of the administrator or any subsidiary of the administrator's controlling company. Audit committee members are elected by the board of trustees.

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.
- .13 The audit committee members should provide experience in areas of finance and medical schemes.
- .14 The chairperson should have the requisite business, financial and leadership skills and should be a good communicator.
- .15 The term of office of the members should not exceed three years unless they are reappointed. No audit committee member should be appointed for more than two consecutive terms. Not more than two thirds of the audit committee members should retire every two years, to ensure continuity in the audit committee but also incorporate new ideas into the audit committee. The term of office of the audit committee should be included in the rules of the scheme.
- .16 In terms of the Act and of the recommendations contained in the King Report on Corporate Governance for SA, 2002(King II Report),the chairperson of the audit committee is to be elected from the three independent committee members, i.e. the two trustees may not be the chairperson of the audit committee.

Meetings of the audit committee

- .17 It is for the audit committee chairperson, in consultation with the board of trustees, to decide on the frequency and timing of its meetings. There should be as many meetings as the audit committee's role and responsibilities require. It is recommended there should be not fewer than three meetings during the year, held to coincide with key dates within the financial reporting and audit cycle.
- .18 No one other than the audit committee's chairperson and members is entitled to be present at a meeting of the audit committee. It is for the audit committee to decide if non-members should attend a particular meeting or for a particular agenda item. It is to be expected that the external audit lead partner, as well as the administrator, will be invited regularly to attend meetings. Others, e.g., the internal auditor, may also be invited to attend.
- .19 Sufficient time should be allowed to enable the audit committee to undertake as full a discussion as may be required. An appropriate interval should be allowed between audit committee meetings and main board of trustee meetings to allow any work arising from the audit committee meeting to be carried out and reported to the board of trustees as appropriate. In terms of the recommendations contained in the King II Report the committee chairperson should account to the board of trustees 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 responsibilities of the audit committee. The chairperson (or in his/her absence, an alternate member) of the committee should attend the annual general meeting to answer questions concerning matters falling within the ambit of the committee.
- .20 There should be arrangements for the audit committee to meet with external and internal auditors independently during the year without the presence of employees of the scheme and its administrators (if applicable).

Resources

- .21 The audit committee should be provided with sufficient resources to undertake its duties.
- .22 The audit committee should have access to the services of the officers and employees of the scheme and/or the administrator on all audit committee matters including: assisting the chairperson in planning the audit committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support.
- .23 In terms of the recommendations contained in the King II Report the committee should obtain independent outside professional advice as and when necessary.

Skills, experience and training

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

Relationship with the board of trustees

- .26 The board of trustees should provide/approve written terms of reference/charter for the audit committee. The terms of reference should be tailored to the particular circumstances of the scheme but must remain in line with the Act (Refer to Appendix 1).
- .27 The audit committee should review annually its terms of reference/charter and its own effectiveness and recommend any necessary changes to the board of trustees.
- .28 The board of trustees should review the audit committee's effectiveness annually.
- .29 The audit committee is an advisory body with no executive powers. However, it could be authorized by the board of trustees to investigate any activity within its terms of reference and seek any information or documentation it requires from the staff/administrator, who are required to co-operate with the audit committee in the conduct of its enquiries.
- .30 The audit committee is authorized to obtain independent professional advice if it considers this to be necessary.
- .31 The committee is authorized by the board of trustees to:
- seek any information that it requires from any employee of the scheme and all employees are directed to cooperate with any request made by the committee;
 - seek any information that it requires from the administrator of the scheme and the administrator is directed to cooperate with any request made by the committee; and
 - investigate any activity within its terms of reference.

Role and responsibilities

Financial reporting

- .32 The audit committee should review the significant financial reporting issues and judgements made in connection with the preparation of the schemes annual financial statements as well as the integrity and reliability of the financial reporting process (including periodic financial reports). The audit committee should also review the clarity and completeness of disclosures contained in the annual financial statements.
- .33 The trustees should inform the audit committee of the methods used to account for significant or unusual transactions where the accounting treatment is open to different approaches. Taking into account the external auditor's view, the audit committee should consider whether the scheme has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgments.
- .34 The audit committee should review the financial reporting, focus on the going concern assumptions, and consider whether the disclosures made are set properly in context.
- .35 The audit committee should consider compliance with legislation and accounting standards as well as legal and other relevant requirements.

Internal financial controls and risk management systems

- .36 The board of trustees remains ultimately responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the audit committee that it has done so. Where an administrator is appointed by the board, this does not absolve the trustees of their responsibilities .

- .37 The audit committee should review the effectiveness of the integrity of the scheme's internal financial controls but they should not seek to do the monitoring themselves.
- .38 The audit committee should assess the scope and effectiveness of the systems established by the board of trustees to identify, assess, manage and monitor financial and non financial risks.

The internal audit process

- .39 The audit committee should monitor and review the internal audit activities. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board of trustees.
- .40 Where the administrator appoints an internal auditor, the audit committee needs access to that internal auditor and evaluate whether it is sufficient to meet the requirements of the audit committee.
- .41 The audit committee should review and approve the internal audit function's remit, having regard to the complementary roles of the internal and external audit functions. The audit committee should ensure that the function has the necessary resources and access to information to enable it to fulfill its mandate.
- .42 The audit committee should approve the appointment or termination of appointment of the scheme's head of internal audit as well as consider the reasons for the termination of an appointment.
- .43 In its review of the work of the internal audit function, the audit committee should, inter alia:
- ensure that the internal auditor has direct access to the board of trustees chairperson and to the audit committee and is accountable to the audit committee;
 - review and assess the annual internal audit scope and work plan;
 - receive a report on the results and findings of the internal auditors' work on a periodic basis;
 - review and monitor the board of trustees' responsiveness to the internal auditor's findings and recommendations;
 - meet with the head of internal audit at least once a year without the presence of the board of trustees; and
 - monitor and assess the role and effectiveness of the internal audit function in the overall context of the scheme's risk management system.
 - review the communication between the external and internal auditors.

The above should apply equally to the internal auditor of the administrator should the audit committee rely on the internal auditor.

The external audit process

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

Appointment

- .45 The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors.
- .46 The audit committee should ensure that the auditor is not be disqualified in terms of the act and therefore the auditor should not be:
- a person who is a member of its board of trustees;
 - a person who is otherwise engaged as an employee, officer or contractor of the medical scheme;

- a person who is an employee, director, officer or contractor of the medical scheme's administrator, or of the holding company, subsidiary, joint venture or associate of its administrator;
- a person who is not engaged in public practice as an auditor; or
- a person who is disqualified from acting as an auditor in terms of section 275 of the Companies Act, 1973.

.47 Upon appointment of an auditor, the audit committee need to ensure that the necessary documentation has been submitted to the Registrar for medical schemes and had consequently been approved by the Registrar as per section 36 of the Act.

.48 If the external auditor resigns or is removed or dismissed, the audit committee should investigate the issues giving rise to such resignation/ removal/ dismissal and consider whether any action is required.

.49 *Upon resignation of an auditor, the audit committee needs to ensure that the auditor has submitted to the Registrar for medical schemes, a statement with the reasons for the resignation, and that where the scheme has received a report from the auditors as contemplated in section 20(5)(a) of the Public Accountants' and Auditors' Act, 1991, such report has been submitted to the Registrar.*

Terms and Remuneration

.50 The audit committee should discuss and review, with the external auditors before the audit commences, the auditors' engagement letter, the terms, nature and scope of the audit function, procedure and engagement and the audit fee and ensure the coordination and maintenance of a professional relationship between firms where more than one firm is involved.

.51 The scope of the external audit should be reviewed by the audit committee with the auditor. If the audit committee is not satisfied as to its adequacy it should request that additional work be undertaken.

.52 The audit committee should satisfy itself that the level of fees payable in respect of the audit services provided is appropriate and that an effective audit can be conducted for such a fee.

.53 The audit committee should review and agree the engagement letter issued by the external auditor at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year.

Independence, including the provision of non-audit services

.54 The audit committee should have procedures to ensure the independence and objectivity of the external auditor annually, taking into consideration relevant professional and regulatory requirements. This assessment should involve a consideration of all relationships between the scheme and the audit firm (including the provision of non-audit services). The audit committee should consider whether, taken as a whole and having regard to the views of the external auditor, the board of trustees and internal audit, those relationships appear to impair the auditor's judgement or independence.

.55 The audit committee should develop and recommend to the board of trustees the scheme's policy in relation to the provision of non-audit services by the auditor. The audit committee's objective should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity. In this context, the audit committee should consider:

- whether the skills and experience of the audit firm make it a suitable supplier of the non-audit service;
- whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;

- the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

.56 The audit committee should set and apply a formal policy specifying the types of non-audit work:

- from which the external auditors are excluded;
- for which the external auditors can be engaged without referral to the audit committee; and
- for which a case-by-case decision is necessary.

.57 In determining the policy, the audit committee should take into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and in principle should not agree to the auditor providing a service if, having regard to the ethical guidance, the result is that:

- the external auditor audits its own firm's work;
- the external auditor makes management decisions for the scheme;
- a mutuality of interest is created; or
- the external auditor is put in the role of advocate for the scheme.

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

.59 The Audit Committee should satisfy itself that procedures are in place to ensure that auditors are not disqualified to act as auditors.

Annual audit cycle

.60 At the start of each annual audit cycle, the audit committee should ensure that appropriate plans are in place for the audit.

.61 The audit committee should consider whether the auditor's overall work plan, including planned levels of materiality, and proposed resources to execute the audit plan appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team.

.62 The audit committee should review, with the external auditors, the findings of their work. In the course of its review, the audit committee should:

- discuss with the external auditor major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved;
- review key accounting and audit judgements; and
- review levels of errors identified during the audit, obtaining explanations from the board of trustees and, where necessary the external auditors, as to why certain errors might remain unadjusted.

.63 As part of the ongoing monitoring process, the audit committee should review the management letter (or equivalent). The audit committee should review and monitor management's responsiveness to the external auditor's findings and recommendations.

.64 At the end of the annual audit cycle, the audit committee should assess the effectiveness of the audit process. In the course of doing so, the audit committee should:

- review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;

- consider the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committee, and in their commentary where appropriate on the systems of internal control;
- obtain feedback about the conduct of the audit from key people involved, e.g. the administrator and the head of internal audit;
- consider any modification to the audit report; and
- ensure coordination between the external and internal audit functions.

Communication with members

- .65 The trustees' report should contain a separate section that describes the role and responsibilities and remuneration packages of the audit committee and the actions taken by the audit committee to discharge those responsibilities.
- .66 The audit committee section should include, inter alia:
- a summary of the role of the audit committee;
 - the names of all members of the audit committee during the period;
 - the number of audit committee meetings and attendance by each member;
 - any payments or considerations made to them in the particular year; and
 - a report on the way the audit committee has discharged its responsibilities.
- .67 The chairperson of the audit committee should be present at the Annual General Meeting - to answer questions, through the chairperson of the board of trustees, on the report on the audit committee's activities and matters within the scope of the audit committee's responsibilities.

Specimen terms of reference for an audit committee

Constitution

1. The board of trustees hereby resolves to establish a committee of the board of trustees to be known as the Audit Committee. The committee is a sub-committee of the board of trustees and is answerable to the board.
2. The audit committee is an advisory committee and not an executive committee. As such it shall not perform any management functions or assume any management responsibilities and shall have an objective, independent role, operating as overseer and a maker of recommendations to the Board for its approval or final decision. The audit committee does not relieve the trustees of any of their responsibilities, but assists them to fulfil those responsibilities.
3. The overall objective of the audit committee is to assist the trustees to discharge their duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and financial statements which shall be provided to the members, regulators and others.

Membership

4. The committee and the chairperson shall be appointed by the board of trustees. The committee shall consist of at least five members. The majority of the members of the committee, including the chairperson, shall not be members of the board of trustees. No committee member may be an officer of the scheme or an employee of the administrator of the scheme, the controlling company of the administrator or any subsidiary of the administrators controlling company.
5. Audit committee members shall be free from any business or other relationship which could materially interfere with the exercise of their independent judgement as an audit committee member.
6. The quorum for the transaction of business shall be three members of the audit committee, representative of trustees and non trustee members, present throughout the meeting of the committee.
7. The duration of membership of the audit committee shall be at the discretion of the Board.
8. The appointment of alternatives or proxies to act for or on behalf of committee members is not permitted.

Attendance at meetings

9. The audit committee shall, in their entire discretion, be entitled to invite any person to attend and be heard at meetings of the audit committee.
10. Board members who are not audit committee members shall have the right of attendance. They shall not be entitled to vote, but shall be entitled to be heard at such meeting.
11. The Principal Officer, and where applicable, a representative of the third party administrator, head of internal audit and a representative of the external auditors (or any other officials depending on the context of the particular scheme) shall attend meetings at the invitation of the committee. Legal or other advisers, who may have meaningful input to the audit committee's activities, can be requested to attend meetings as and when needed.

12. The chairperson of the board of trustees and other board of trustees' members shall attend if invited by the committee.
13. There should be at least one meeting a year, or part thereof, where the external auditors attend without employees of the scheme and the administrator being present.
14. The chairman of the audit committee shall excuse from the meeting or from any item on the agenda, any trustee, member or representatives, who could, in his opinion, have any conflicts of interest. Members of the audit committee shall declare upfront any conflict of interest. The chairperson shall also delegate his or her position to any other member should he or she have any conflict of interest in matters discussed, and shall exclude himself or herself from the agenda item.
15. 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).

Frequency of meetings

16. Meetings of the committee will be held as frequently as the committee considers appropriate (convened by the chairperson of the committee). It will normally meet not less than [three] times a year, and where appropriate should coincide with key dates in the scheme's financial reporting cycle. Sufficient time should be allowed between audit committee meetings and main board of trustees meetings to allow any work arising from the audit committee meeting to be carried out and reported to the board of trustees as appropriate.
17. 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

18. The minutes of audit committee meetings shall be confirmed at the next meeting of the committee. The minutes of all audit committee meetings shall be submitted to and considered by the Board.
19. In respect of voting at meetings:
 - A majority of the total number of the appointed members of the audit committee shall constitute a quorum at any meeting of the audit committee.
 - 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.
 - In the event of an equality of votes regarding any matter, the chairperson of the audit committee or the person acting as chairperson, shall have a casting vote in addition to his or her deliberate vote. When the chairperson is not available to chair the audit committee the members present will select a member to chair the meeting provided that an independent board of trustee members chairs the meeting.
20. The secretary shall agree with the chairman of the audit committee on the contents of the agenda for each meeting. Meeting agendas should be prepared and distributed in advance together with sufficient background information to enable the audit committee members to appropriately prepare for the meetings. The secretary shall attend the audit committee meetings and comprehensively record the proceedings and decisions taken. Minutes should be distributed to all committee members after the preliminary approval by the chairperson of the audit committee.

21. Unless varied by these terms of reference, meetings and proceedings of the Committee will be governed by the rules of the Scheme regulating the meetings and proceedings of trustees and committees.
22. The Chairperson shall have the right and obligation to make a ruling on any procedural issue or emerging question for which no rule or precedent exists.

Authority

23. The committee is authorised by the board of trustees to:
 - seek any information that it requires from any employee/ administrator of the scheme and all employees are directed to cooperate with any request made by the committee; and
 - investigate any activity within its terms of reference;
 - obtain outside legal or independent professional advice and such advisors may, at the request of the committee, attend meetings as necessary.

Responsibilities

24. The responsibilities of the committee shall be:
 - **External audit**
 - a. to consider the appointment of the external auditor and assess the independence of the external auditor;
 - b. to ensure that the appointment of the auditor has been approved by the Registrar of medical schemes.
 - c. to discuss with the external auditor, before the audit commences, the engagement letter, the nature and scope of the audit and to review the auditors' quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
 - d. to oversee the process for selecting the external auditor and make appropriate recommendations through the board of trustees to the members to consider at the AGM;
 - e. to review the external auditor's management letter and the response of the administrators/principal officer/trustees (as appropriate);
 - f. to review the external auditors' audit report
 - g. to recommend the audit fee to the board of trustees and preapprove any fees in respect of non-audit services provided by the external auditor and to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity;
 - **Internal audit**
 - h. to review the internal audit work plan and to ascertain that the internal audit function is adequately resourced and that it has appropriate standing within the scheme (this would apply to internal auditors appointed by the scheme or the administrator, where applicable);
 - i. to review the internal auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management;
 - j. to consider the response of the administrators/principal officer/trustees (as appropriate) to any internal audit recommendations;
 - k. to approve the appointment or dismissal of the scheme's head of internal audit;
 - **Annual financial statements**
 - l. to review, and challenge where necessary, the actions and judgments of the principal officer/administrators (as appropriate), in relation to annual financial statements before submission to the board of trustees for approval, paying particular attention to:
 - i. critical accounting policies and practices, and any changes thereto

- ii. decisions and significant financial estimates included in the financial statements requiring a major element of judgment
 - iii. the extent to which the annual financial statements are affected by any unusual transactions in the year and how they are disclosed
 - iv. the clarity of disclosures
 - v. significant adjustments resulting from the audit
 - vi. the going concern assumption
 - vii. compliance with accounting standards
 - viii. compliance with legal requirements
 - ix. reviewing the statement on internal control systems prior to endorsement by the board of trustees
 - x. whether the annual financial statements present a balanced and understandable assessment of the scheme's position, performance and prospects.
- **Other**
 - m. to review the policies and process for identifying and assessing business risks and the management of those risks by the scheme;
 - n. enquire of the representatives of the administrators, the internal auditors and the external auditors about significant financial risks or exposures and review the process implemented to manage such risks to the scheme.
 - o. review with the external auditors and the internal auditor (if appointed):
 - the adequacy, maintenance and effectiveness of the scheme's systems of internal controls, including internal financial controls, business risks management, computerized information system controls and security;
 - the quality of financial information produced to ensure integrity and reliability;
 - the maintenance of proper and adequate accounting records;
 - p. to review the trustees' responsibility statement to be included in the annual financial statements including the statement on effectiveness of the systems of internal control, prior to publication, and in particular to review:
 - the procedures for identifying financial risks and controlling their impact on the scheme;
 - the scheme's policies and procedures for preventing or detecting fraud;
 - the scheme's policies and procedures for ensuring compliance with relevant regulatory and legal requirements
 - the scheme administrator's representations to the board in regard to the fair presentation of the Trustees responsibilities statement.
 - q. to review and monitor the corporate governance practices, in particular the ethical conduct of the scheme, its trustees and officials by:
 - reviewing any Code of Ethical Standards prior to its publication and making recommendations to the Board in this regard;
 - receiving reports from the administrators, the principal officer and/or trustees of material frauds or irregularities identified.
 - considering any violations of ethical conduct or activity;
 - considering non compliance with the law and regulations of other applicable statutes;
 - r. to review the scheme's Risk Management Assessment.
 - s. to consider other topics, as defined by the board of trustees.

Reporting and Accountability

25. The secretary shall circulate the minutes of meetings of the committee to all members of the board of trustees, and the chairperson of the committee or, as a minimum, another appointed member of the committee (not a trustee), shall attend the board of trustees meeting at which the accounts are approved.

26. The committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the board of trustees.
27. The committee's duties and activities and remuneration packages during the year shall be disclosed in the annual financial statements.
28. The audit committee shall make recommendations to the Board concerning the adoption of the annual financial statements and any other matters arising from the above responsibilities.
29. The audit committee shall approve a statement for inclusion in the annual report that describes the committee's composition and responsibilities, and how these responsibilities were discharged.
30. The chairman of the audit committee, or in his absence, any member of the audit committee, shall be in attendance at annual general meetings of members of the scheme and respond to any questions relating to the work of the audit committee.

Remuneration

31. The board shall decide on the value of fees (if any) to be paid to the chairperson 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.

#55979