



**CARTRACK
HOLDINGS LIMITED**

TERMS OF REFERENCE OF THE
AUDIT AND RISK COMMITTEE

DATED 5 NOVEMBER 2014





1. CONSTITUTION

- 1.1. The Audit and Risk Committee (the "**Committee**") is constituted in terms of section 94(7) of the Companies Act, No.71 of 2008 (the "**Companies Act**"), as a committee required pursuant to the listings requirements (the "**JSE Listings Requirements**") of the securities exchange operated by the JSE Limited ("**JSE**") and a committee of the board of directors (the "**Board**") of Cartrack Holdings Limited (the "**Company**") in respect of all other duties assigned to it by the Board as set out in these terms of reference.
- 1.2. These terms of reference are subject to the provisions of the Companies Act, the Company's Memorandum of Incorporation ("**MOI**") and any other applicable law or regulatory provision.
- 1.3. The Committee shall perform the functions listed below and perform, on behalf of all South African subsidiaries of the Company that are required in terms of the Companies Act to have audit committees, the functions listed in section 94(7) of the Companies Act. The Company and all of its South African subsidiaries are hereinafter collectively referred to as the "**Group**".
- 1.4. The Committee was established primarily to assist the Board in overseeing the:
 - 1.4.1. safeguarding of assets;
 - 1.4.2. operation of adequate risk management and control processes;
 - 1.4.3. external audit appointments and function; and
 - 1.4.4. compliance with legal and regulatory requirements to the extent that it might have an impact on financial statements.
- 1.5. The Committee should mainly make recommendations to the Board for its approval or final decision and should not assume management responsibilities. The Committee does not provide relief to Board members for their individual and collective fiduciary duties and responsibilities and they must continue to exercise due care and judgement in accordance with their obligations toward the Company.





2. **PURPOSE AND ROLE**

- 2.1. The purpose of these terms of reference is to set out the Committee's roles and responsibilities, as well as the requirements for its membership and meeting procedures.
- 2.2. The role of this Committee is an independent one with accountability to the Board and to the Company's shareholders. With regard to its non-statutory duties and responsibilities, the Committee operates as an overseer and makes recommendations to the Board for its consideration and final approval. The Committee cannot assume the function of management which remains the responsibility of the executive directors, officers and senior management.

3. **AUTHORITY**

- 3.1. The Committee acts in terms of the delegated authority of the Board as recorded in these terms of reference. It has the power to investigate any activity within the scope of its terms of reference.
- 3.2. The Committee has reasonable access to the Group's records, facilities and any other resources necessary to discharge its duties and responsibilities.
- 3.3. The Committee may form, and delegate authority to, subcommittees and may delegate authority to one or more designated members of the Committee to perform certain tasks on its behalf but the Committee remains accountable for same.
- 3.4. The Committee has the right to obtain independent outside professional advice to assist with the execution of its duties, subject to approval by the Board, at the Company's cost.
- 3.5. The Committee has decision-making authority in respect of its statutory duties and is accountable in this respect to both the Board and the Company's shareholders. The Committee makes recommendations to the Board in respect of all responsibilities delegated to it by the Board which fall outside of its statutory duties.

4. **MEMBERSHIP**



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- 4.1. The Committee shall consist of not less than three members nominated and elected annually by the Board, all of whom shall be independent non-executive directors, unless the JSE grants an exemption allowing non-independent non-executive directors to be members of the Committee, subject always to compliance with section 94 of the Companies Act.
- 4.2. The chairman of the Board is not eligible to be chairman of this Committee but may be a member, provided that the JSE has granted an exemption allowing the chairman of the Board to be a member of the Committee, subject always to compliance with section 94 of the Companies Act.
- 4.3. The chairman of this Committee (the "**Chairman**") must be an independent, non-executive director. The Board shall elect the Chairman from amongst the members of this Committee and shall determine the period for which he/she shall hold office as such. The Chairman must be present at the annual general meeting of the Company and shall respond to queries on the Committee's activities.
- 4.4. Each member of the Committee must have suitable financial expertise, skills and experience and must keep up to date with developments affecting the required skill set.
- 4.5. The Board must fill any vacancy on the Committee within 40 business days after the vacancy arises, but may not remove any member elected by shareholders from the Committee.
- 4.6. The company secretary of the Company shall be the secretary of the Committee.

5. **STATUTORY DUTIES**

In accordance with section 94(7) of the Companies Act, the Committee must:

- 5.1. nominate, for appointment as auditor of the Group under section 90 of the Companies Act, a registered auditor who, in the opinion of the Committee, is independent of the Group;
- 5.2. determine the fees to be paid to the auditor and the auditor's terms of engagement;



- 5.3. ensure that the appointment of the auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors;
- 5.4. determine, subject to the provisions of chapter 3 of the Companies Act, the nature and extent of any non-audit services that the auditor may provide to the Group, or that the auditor must not provide to the Group, or a related company;
- 5.5. pre-approve any proposed agreement with the auditor for the provision of non-audit services to the Group;
- 5.6. prepare a report, to be included in the annual financial statements for each financial year:
 - 5.6.1. describing how the Committee carried out its functions;
 - 5.6.2. stating whether the Committee is satisfied that the auditor was independent of the Group; and
 - 5.6.3. commenting in any way the Committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the Group;
- 5.7. receive and deal appropriately with any concerns or complaints, whether from within or outside the Group, or on its own initiative, relating to:
 - 5.7.1. the accounting practices of the Group;
 - 5.7.2. the content or auditing of the Group's financial statements;
 - 5.7.3. the internal financial controls of the Group; or
 - 5.7.4. any related matter;
- 5.8. make submissions to the Board on any matter concerning the Group's accounting policies, financial control, records and reporting; and
- 5.9. perform such other oversight functions as may be determined by the Board.





6. RESPONSIBILITIES

In addition to the statutory duties set out in 5 above, the Committee has the following responsibilities:

Reporting

- 6.1. In terms of good corporate governance and King III, companies must produce integrated reports, which the Committee must oversee. Therefore, the Committee is responsible for:
 - 6.1.1. ascertaining all factors and risks that would impact on the accuracy of the integrated report and other external reporting such as interim results, including factors that may predispose management to present misleading information, a poor significant judgment, reporting and decisions, failure at enforcement, monitoring by regulatory bodies, forecast of financial information and question information that brings into doubt previously published information;
 - 6.1.2. overseeing the governance of the reporting processes and relevance of the related accounting policies for the integrated report, annual financial statements, preliminary results announcements, and interim reports and ensuring that financial statements are prepared in terms of International Financial Reporting Standards and other appropriate standards;
 - 6.1.3. recommending the engagement of external auditors, where applicable in so far as assurance of reports is concerned;
 - 6.1.4. reviewing significant findings and other matters arising through to completion of the annual financial statements and dealing with any complaints relating to any external reporting.
 - 6.1.5. recommending the annual report for approval by the Board.





Combined Assurance

6.2. The Committee must:

- 6.2.1. ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities to address all the significant risks facing the Group; and
- 6.2.2. monitor the relationship between external assurance providers and the Group.

Financial director and Finance Function

6.3. The committee will:

- 6.3.1. on an annual basis, ensure that the financial director of the Company is suitably qualified and experienced and must confirm this by reporting to shareholders in its annual report that the Committee has executed this responsibility; and
- 6.3.2. ensure that the finance department of the Company has adequate resources and experience to manage the company's financial function and report thereon in the integrated report.

Governance of Risk

6.4. With regard to the governance of risk, the Committee should ensure that the Group has an effective risk framework, policy and a plan for risk management in order to assist the Group in achieving its strategic goals and that the disclosure and reporting of risk is complete, timely and relevant. The Committee is an integral component of the risk management governance process and in this regard the Committee shall oversee:

- 6.4.1. financial reporting risks;
- 6.4.2. internal financial controls;
- 6.4.3. fraud risks as it relates to financial reporting; and





- 6.4.4. IT risks as it relates to financial reporting and the going concern of the Group and shall ensure that IT risks are adequately addressed.
- 6.5. The Committee is also responsible to oversee the mitigation or optimisation plans within the Group with respect to all its significant risks; and in this regard the Committee shall:
 - 6.5.1. ensure the highest level of ethical standards in business practices within the Group and in external relationships;
 - 6.5.2. ensure that effective systems (including effective systems in relation to IT risks) of internal control are developed, implemented, monitored maintained and assessed, by management;
 - 6.5.3. oversee the development, implementation and annual review of the Group's risk management framework, policy and plan for a system and process of risk management;
 - 6.5.4. make recommendations to the Board concerning the levels of risk tolerance and appetite and ensure the monitoring and management of risks within the levels of risk tolerance and appetite as approved by the Board;
 - 6.5.5. ensure that compliance forms an integral part of the Group's risk management process;
 - 6.5.6. oversee the risk management assessments performed by management on a continuous basis;
 - 6.5.7. ensure that there is an adequate framework and methodologies for the detection, and management of emerging risks;
 - 6.5.8. ensure that management considers and implements appropriate risk responses to all significant risks;



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- 6.5.9. express the Committee's formal opinion to the Board on the effectiveness of the system and process of risk management in the Group;
 - 6.5.10. review reporting concerning risk management that is to be included in the financial report ensuring it is timely, comprehensive and relevant; and
 - 6.5.11. oversee and monitor the adequacy of internal controls within the Group specifically related to financial reporting, risks and fraud risks (and any incidents of fraud).

Compliance with Laws and Regulations

6.6. The Committee shall:

- 6.6.1. review the effectiveness of the system for monitoring the Group's compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or non-compliance;
- 6.6.2. obtain regular updates from management and/or the Group's legal counsel regarding compliance matters;
- 6.6.3. satisfy itself that all regulatory compliance matters have been considered in the preparation of the financial statements; and
- 6.6.4. review the findings of any examinations by regulatory agencies.

Compliance with the Group's Code of Conduct

6.7. The Committee shall:

- 6.7.1. ensure that the Group code of conduct is in writing and that arrangements are made for all employees to be aware of it;
- 6.7.2. review the process for monitoring compliance with the Group code of conduct and consider any matters that may have an effect on the financial reports; and

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- 6.7.3. obtain regular updates from management regarding compliance with the Group code of conduct.

Reporting Responsibilities of the Committee

- 6.8. The Committee shall:
 - 6.8.1. regularly report internally to the Board on the Committee's statutory duties and the duties assigned to it by the Board and make appropriate recommendations; and
 - 6.8.2. recommend annual and interim financial reports for approval by the Board.

Other Responsibilities

- 6.9. The Committee:
 - 6.9.1. shall perform other ad hoc oversight functions as requested by the Board;
 - 6.9.2. shall review any other reports the Group issues that relate to Committee responsibilities;
 - 6.9.3. shall if necessary, institute special investigations and, if appropriate, hire counsel or experts to assist; and
 - 6.9.4. shall have direct and unobstructed lines of communication to the Board and the external auditors.

7. MEETINGS AND PROCEEDINGS

- 7.1. The Chairman has the right to exclude any items to be discussed while attendees are present where a conflict of interest becomes evident.
- 7.2. Special meetings may be called by any member of the Committee (including at the request of the external auditors or legal advisors) or at the instance of the Board where such further meeting is considered necessary.



Frequency

- 7.3. Meetings of the Committee will be held as frequently as the Committee considers appropriate but the Committee shall hold at least 2 meetings per year. At least once a year the committee must meet with the external auditors without the presence of management.
- 7.4. The chief executive officer of the Company, the financial director of the Company, other members of senior management or external auditor may, however, with the approval of the Chairperson (which approval may not be unreasonably withheld), request a Committee meeting or attendance at a Committee meeting.
- 7.5. Reasonable notice (confirming the venue, time and date) of Committee meetings must be given to the Committee members together with the agenda of items to be discussed at such meeting (including relevant supporting documentation) and such notice and agenda must ideally be circulated to Committee members at least three days before each meeting and members should ensure that they are adequately prepared for the matters to be discussed.

Attendance

- 7.6. The Committee may invite the chief executive officer of the Company, the financial director of the Company, other members of senior management, external auditors, other assurance providers, professional advisers and Board members to attend its meetings should it so require; however, such invitees shall have no voting rights whatsoever at such Committee meetings.
- 7.7. Committee members must attend all scheduled meetings including ad hoc Committee meetings unless prior apology with reasons has been submitted to the Chairperson or the company secretary. If the Chairperson is unavailable to chair the relevant Committee meeting then the other Committee members may elect one of the members present to act as chairperson of such meeting. The company secretary of the Company, as the secretary of this Committee, shall keep appropriate records of all Committee meetings as well as minutes of proceedings and all decisions taken at Committee meetings unless he or she is unavailable, in which case the Committee may appoint another person whom the the Committee considers appropriate to perform such function.

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- 7.8. The finance director and external auditor shall have unrestricted access to the Chairman or any other member of the Committee as is reasonably required in relation to any matter falling within the remit of the Committee.

Annual Plan and Minutes

- 7.9. The Committee should establish an annual plan that will ensure that all relevant matters are covered on its agendas of planned meetings. This plan must cover the functions and responsibilities under these terms of reference.
- 7.10. Minutes of the meeting should be completed as soon as is reasonably possible after the relevant meeting and circulated to the Committee members in good time for members to review and must be formally approved at each following meeting.
- 7.11. Once approved, these minutes should be distributed to all the members of the Board for information purposes.

Quorum

A quorum for Committee meetings is a majority of Committee members present (either in person or via Electronic Communication (as defined in the Companies Act)) throughout the meeting. Invited participants are not part of the quorum and do not vote.

Meetings via Electronic Communication

Committee meetings may be conducted entirely by Electronic Communication (as defined in the Companies Act) and Committee members may participate in Committee meetings by Electronic Communication (as defined in the Companies Act) so long as the Electronic Communication (as defined in the Companies Act) employed ordinarily enables all Committee members participating in that meeting to communicate concurrently with each other without an intermediary, and to participate reasonably effectively in that meeting.



Round Robin Resolutions

Decisions of the Committee may be taken by way of a round robin resolution. A round robin resolution shall have been adopted if supported by a majority of the Committee members (and if adopted it shall have the same effect as if it had been approved by voting at a Committee meeting), provided that the relevant round robin resolution (and all supporting documentation in relation thereto) was submitted to all Committee members for consideration.

8. REMUNERATION

8.1. Having regard to 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 MOI of the Company, members of the Committee may be paid such remuneration in respect of their appointment as shall be fixed by the Board.

8.2. The Chairman shall, in addition to his or her remuneration as member, receive a further sum as determined by the Board.

8.3. Such remuneration in terms hereof shall be in addition to the annual fees payable to directors in their capacities as directors.

9. EVALUATION

The effectiveness of the Committee shall be evaluated by the Remuneration and Nominations Committee every year and a report on the results thereof submitted to the Board.

10. APPROVAL AND REVIEW OF THESE TERMS OF REFERENCE

These terms of reference will be reviewed annually to ensure compliance with the latest corporate governance best practice and approved either: (a) by the Board; or (b) the Chairman and the chairman of the Board.