

CHARTER OF THE  
INTERNAL AUDIT DEPARTMENT



**PEERMONT**

HOTELS CASINOS RESORTS

## **1. Introduction**

- 1.1 The audit and risk committee of Peermont Global Holdings I (Pty) Ltd (“the Committee”) is ultimately responsible for overseeing the establishment of effective systems of internal control in order to provide reasonable assurance that Peermont Global Holdings I (Pty) Ltd’s and its subsidiaries (the Peermont Group”) financial and non-financial objectives are achieved. Executing this responsibility includes the establishment of an internal audit function in accordance with this document.
- 1.2 Internal control is understood to mean the processes aimed at achieving reasonable assurance about the realisation of the following objectives:
  - 1.2.1 the accomplishment of established objectives and goals for operations and programmes;
  - 1.2.2 the economical and efficient use of resources;
  - 1.2.3 the reliability and integrity of financial and non-financial information;
  - 1.2.4 compliance with relevant policies, procedures, laws and regulations;
  - 1.2.5 safeguarding of assets.
- 1.3 This document defines the role, organisational status, authority, responsibilities and scope of activities of the internal audit function. It also includes the principles underlying the realisation of the objectives of the function and the translation thereof into operational activities.

## **2. Purpose of Internal Audit**

- 2.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **3. Authority and independence**

#### **3.1 Status**

- 3.1.1 The organisation status of internal audit should be sufficient to permit objectivity, and to assure the accomplishment of its audit responsibilities.
- 3.1.2 The internal audit function is established by the Committee.
- 3.1.3 The Committee determines the Group Internal Audit Manager's ("GIAM's") appointment and removal and is responsible for his performance appraisal. The Committee ensures that the internal audit function is subjected to an independent quality review as and when the Committee determines it appropriate, but at least every five years, to ensure that the function remains effective.
- 3.1.4 The GIAM reports administratively to the chief executive officer ("CEO") or his nominated deputy and reports functionally to the Committee.
- 3.1.5 The GIAM has unlimited access to all officers of the company including the chairpersons of the Board and Committee, and the CEO.
- 3.1.6 The GIAM has a standing invitation to attend meetings of the executive committee or other committees made up of a majority of senior executives, but is not a member of these committees in order to protect independence.

#### **3.2 Organisational structure**

- 3.2.1 The organisational structure must promote the independence of the internal audit function as a whole and allow internal audit to form its judgments objectively.
- 3.2.2 Internal audit has free and unrestricted access to management, employees, activities, physical locations and to all information considered necessary for the proper execution of internal audit's work, at the discretion of the GIAM.
- 3.2.3 The internal audit function has full, free and unrestricted access to any of the organisation's financial and operational activities, records (either manual or electronic), physical properties and personnel relevant to a review, but subject to strict accountability for safekeeping and confidentiality thereof.
- 3.2.4 The GIAM and staff of the internal audit function are not authorised to:
  - 3.2.4.1 perform any material operational duties for the organisation or its affiliates;
  - 3.2.4.2 initiate or approve accounting transactions external to the internal audit function; and
  - 3.2.4.3 direct the activities of any employee in the organisation not employed by the internal auditing function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist internal audit.

- 3.2.5 Internal audit staff generally do not assume roles other those in an advisory capacity in the design, installation or operation of control procedures. Any staff transferred into the internal audit function from other departments should not review any aspects of their previous department's work until reasonable interval of time has passed.
- 3.2.6 The GIAM is ultimately responsible for the work performed by all staff members of the internal audit function. This includes, but is not limited to, the establishment of the scope of activities to be carried out in the different departments, the tools and methodologies to be followed, procedures and standards, headcount of the function in the different departments, required skills, educational levels, experience, etc. for recruitment into the function, decisions on the possible outsourcing or co-sourcing of capacity, etc, within the scope of the budget approved by the Committee.

### **3.3 Limitation of Scope**

- 3.3.1 Any attempted scope limitation by management must be reported, preferably in writing, to the CEO and to the Committee. The question of whether an action from management in fact constitutes a scope limitation is at the discretion of the GIAM. Except in cases of suspected fraud, the CEO and the Committee may decide to accept a limitation of scope. In such instances, the GIAM should evaluate from time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported again to the CEO and the Committee for their renewed consideration.

## **4. Responsibilities**

- 4.1 Internal audit assurance is provided through applying the Standards for the Professional Practise of Internal Auditing and the Code of Ethics of The Institute of Internal Auditors ("ITA").
- 4.2 Internal audit provides assurance to the company's stakeholders that the company operates in a responsible manner by performing the following functions.
- 4.2.1 evaluating the company's governance processes including ethics, especially the 'tone at the top';
- 4.2.2 performing an objective assessment of the effectiveness of risk management and the internal control framework;
- 4.2.3 systematically analysing and evaluating business processes and associated controls; and
- 4.2.4 providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities;

- 4.2.5 providing a written assessment regarding the effectiveness of the system of internal financial controls and risk management to the Board and Committee on an annual basis. This enables both the Board and the Committee to report on the effectiveness of the system of internal financial controls in the integrated reports; and
- 4.2.6 conducting a documented review of the key financial reporting controls in identified financial systems and processes every year. This must be submitted to the Committee to enable it to formulate its comment to be included in the annual financial statements in terms of section 94 (7) (f) (iii) and to make a submission to the Board in terms of section 97 (7) (h) of the Companies Act, 2008.
- 4.3 The scope of possible activities that the internal audit function can engage in includes:
  - 4.3.1 monitoring the risk management infrastructure and practices;
  - 4.3.2 reviewing the reliability and integrity of financial and operational information and the means used to identify, measure, classify and report such information;
  - 4.3.3 reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the company is in compliance;
  - 4.3.4 reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
  - 4.3.5 appraising the economy and efficiency with which resources are employed;
  - 4.3.6 reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or programmes are being carried out as planned; and
  - 4.3.7 evaluating and assessing of significant merging or consolidation of functions and new or changing services, processes, operations, and control processes that are coincidental with their development, implementation and/or expansion.
- 4.4 The annual allocation of internal audit resources to the different possible activities is established on the basis of an approved internal audit plan. The Committee is responsible for approving the plan based on the agreed scope of work that needs to be performed.

## **5. Relationships with the external auditors**

5.1 Internal audit co-ordinates its work with that of the other assurance providers. The external auditors must be consulted in determining the activities of internal and external audit in order to minimize duplication of audit effort. This may involve:

- 5.1.1 periodic meetings to discuss the planned activities;
- 5.1.2 the exchange of audit work papers including systems documentation;
- 5.1.3 the exchange of management letters;
- 5.1.4 the forming of joint teams where appropriate;
- 5.1.5 internal audit carrying out certain (financial) audit work;
- 5.1.6 evaluating the quality of the services rendered to the company by the external auditors; and
- 5.1.7 other aspects of the relationship between the organisation and the external auditors.

## **6. Operational planning**

6.1 The following matters should be considered in the optimal planning of the internal audit function:

- 6.1.1 staffing – high-level issues relating to the staffing of the function (e.g. training ground for management, skill sets, educational backgrounds, previous experience, etc.) are addressed. Also, the following matters are covered:
  - preparation of written job descriptions for the various levels;
  - methods of recruiting and selection;
  - providing training and appropriate continuing professional educational opportunities for staff;
  - evaluating performance at least on a periodic basis; and
  - appraising each member of the staff with respect to his performance and professional development;

- 6.1.2 budgeting systems;
- 6.1.3 tools and methodologies;
- 6.1.4 internal audit planning – the underlying principles and process of preparation and approval of the annual plan of activities, setting out the intended scope of the work during the upcoming period(s) are formalised in writing. Identification and prioritization of audit areas is to be based on the assessment of risks pertaining to the achievement of the company's objectives and the related audit significance. Such a risk analysis and determination of audit significance is the basis for the formal assessment of audit needs and the strategic audit plan. The strategic audit plan should set out the frequency and the extent of coverage for each auditable area. For all major audit activities this would normally ensure that the most significant audit areas are audited frequently and all auditable areas are covered within the strategic planning period. A strategic audit plan, which ensures coverage of the company's operations as a whole, over a time frame of 12 months, is to be maintained and reviewed every year. The annual audit plan must include priority, timing and resource requirements. For each audit an individual plan is to be prepared and is to be approved by the GIAM;
- 6.1.5 performance metrics;
- 6.1.6 quality assurance;
- 6.1.7 communication strategy – the objectives are to secure that, within the company, all relevant entities and staff are aware of the purpose, organisational status and added value that the internal audit brings. A deliberate communication strategy enhances the effectiveness of the function; and
- 6.1.8 reporting – internal audit should be supported by an appropriate reporting protocol. This protocol holds that all reports in terms of factual findings and proposed action only, are agreed with management of the company being audited, before they are submitted to higher management levels of the audit committee. The only possible exception is where management fraud is suspected. The reporting frequency, style and distribution should be documented as follows in each report generated:

Reports	To	When	Content
Audit Reports	Responsible (local) management  Relevant members of the Executive Committee  cc: Responsible Regional / Divisional Manager	The end of each audit	Audit objective Audit scope Executive summary of major findings and recommendations Detailed recommendations Management response Agreed actions
Interim Status Reports	Relevant members of the Executive committee  The Committee  cc: Group External Auditor	Quarterly	Progress against, and significant amendments to, the current annual audit plan Summary of major findings and recommendations
Annual Report	Relevant members of the Executive committee  The Committee  cc: Group External Auditor	Annually	Achievement of the annual audit plan, staffing plans and budgets Summary of major findings and recommendations Proposed annual audit plan Amendments to strategic plan

## 7. Assessment of effectiveness of internal audit function

- 7.1 The Committee should annually consider and monitor the effectiveness of the internal audit function.

## 8. Review of charter

- 8.1 This charter is subject to the approval of the Committee. Any proposed changes to the charter must be submitted to the Committee for further approval.