

## DSV FLEXI RETIREMENT FUNDS (PENSION AND PROVIDENT SECTIONS)

### GOVERNANCE, RISK & AUDIT COMMITTEE MANDATE

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#### 1. INTRODUCTION

The Governance committee is a sub-committee of the board of trustees ("the Board") of the DSV Flexi Retirement Funds (Pension and Provident Sections) ("the Fund") appointed in terms of the rules of the Fund. It is noted that the Governance and Risk Management Committee and Audit Committee amalgamated effective 1 September 2011, by resolution of the Board on 30 August 2011.

While the Board has a duty to act in a fiduciary role to the Fund and to act in the best interests of the Fund as detailed in Section 7C of the Pension Funds Act ("the Act"), the committee has a particular role, acting independently from the Board, to ensure that the interests of members are properly protected.

Section 7D of the Pension Funds Act provides for the duties and responsibilities of trustees. The Act places the following responsibilities on trustees:

The duties of a board shall be to -

- (a) ensure that proper registers, books and records of the operations of the fund are kept, inclusive of proper minutes of all resolutions passed by the board;
  - (b) ensure that proper control systems are employed by or on behalf of the board;
  - (c) ensure that adequate and appropriate information is communicated to the members and beneficiaries of the fund informing them of their rights, benefits and duties in terms of the rules of the fund, subject to the disclosure requirements as may be prescribed;
  - (d) take all reasonable steps to ensure that contributions are paid timeously to the fund in accordance with this Act;
  - (e) obtain expert advice on matters where board members may lack sufficient expertise;
  - (f) ensure that the rules and the operation and administration of the fund comply with this Act, the Financial Institutions (Protection of Funds) Act, 2001 (Act No. 28 of 2001), and all other applicable laws.
  - (g) comply with all other prescribed requirements.
- (2)(a) The board may, in writing and in accordance with a system of delegation set out in the rules, delegate any of its functions under this Act to a person or group of persons, or a committee of the board, subject to conditions that the board must determine.
- (b) The board is not divested or relieved of a function delegated under paragraph (a) and may withdraw the delegation at any time.

Circular PF130 released by the Financial Services Board (FSB) on 11 June 2007 articulates the FSB's views on what constitutes the minimum levels of corporate governance a board of trustees should adhere to.

The Registrar states in the Circular that:

**"Governance therefore includes values and ethical principles which require a certain standard of behavior of the board."** Although the Circular refers to behavioral governance in its introductory section, paragraph 26 & 27 and Annexure A, of the Circular addresses structural governance in detail.



“The *Fundamental principle* is that the board shall at all times act with the *utmost good faith* towards the Fund and in the best interest of the members.”

“Fundamental to the governance of a Fund is the extent of the *accountability* of the board and the principal officer. The principal officer is appointed by and *accountable* to the board and the board is accountable to the members and beneficiaries and the Registrar for its governance of the Fund.” The Fund adopts the advocated approach, and it is clarified that any matters relating to a trustee or service provider conduct shall be the responsibility of the Fund Chairman or Principal Officer respectively. Fund leadership on matters of conduct will not be the responsibility of the Committee. The Committee will apply a risk based approach to analyzing the Fund’s processes, controls and compliance to support the Board with its responsibilities by seeking combined assurance on these important facets of the Fund.

“Every Fund should have –

- A code of conduct
- An investment policy statement (IPS)
- A communication policy
- A performance assessment tool for trustees which should inform their education and training policy”

King IV was released on 1 November 2016 and it is effective for financial years commencing from 1 April 2017. Whilst King IV is voluntary, it is envisaged that it will be applicable to all organisations irrespective of their form or manner of incorporation. The Committee shall consider the application of the King IV principles.

The purpose of this document is to set out the scope, constitution, role, duties and powers of the Committee.

## **2. COMPOSITION AND CONSTITUTION OF THE COMMITTEE**

The committee is established by a resolution of the Board of the Fund. The Fund’s Board determines the structure of the committee. The committee shall comprise of at least three members, of whom at least one must be a Board member. Members should have a good operational understanding of the Fund to adequately fulfil the role of the committee. The Board of the Fund must take into account the accounting expertise of members.

The Board may by resolution, remove a Committee Member at any time.

The Committee shall elect a Chairperson, and this will be reviewed annually.

The following people may not be part of the Committee, but will be invited to attend the meetings:

- The external auditors
- The manager of the administrator who can report on the financial workings of the Fund
- Any party assisting the committee in carrying out its functions

The membership of the Committee shall be reviewed annually. If the Chairperson of the Committee is absent from any meeting, the Committee shall elect a Chairperson for that meeting from their number.

The appointment of alternates or proxies to act for or on behalf of Committee members is not permitted.

## **3. MEETINGS**

Committee meetings should be held at least twice a year to deal with its roles and responsibilities. The meetings will be called and notified to the committee members at the times deemed appropriate by the Chairman of the Committee.

A quorum consists of 3 committee members, 1 of whom is required to be a trustee.

Board members who are not committee members shall have the right of attendance.



## 4. PROCEDURAL ASPECTS

### 4.1 MANDATE FOR THE COMMITTEE

- 4.1.1 The Committee is a permanent sub-committee of the Board.
- 4.1.2 The role of the Committee is advisory and not executive. Therefore, it shall not perform any management functions or assume management responsibilities and shall have an objective, independent role, operating as overseer and a maker of recommendations to the Board for its approval and final decision.

### 4.2 MEETINGS OF THE COMMITTEE

- 4.2.1 The policies, procedures and customs which apply to meetings of the Board will apply to the meetings of the Committee unless otherwise specified in this mandate or unless inappropriate.
- 4.2.2 Written notice (including an email notification) shall be given to all Committee members and other interested parties, at least ten working days prior to the date on which a meeting is to be held. This requirement may, in the event that a special meeting is required, be waived should all Committee members agree thereto.
- 4.2.3 Any decisions or proposals made by the Committee will be presented to the Board as recommendations for approval and implementation.
- 4.2.4 An attendance register shall be maintained for all Committee meetings and should be signed by each Committee member physically present and any other attendee as an indication of their attendance at that meeting.
- 4.2.5 Meetings may be conducted by telephone or video conference call.
- 4.2.6 Minutes of all meetings of the Committee shall be kept and presented to the Board at trustee meetings.

## 5. PURPOSE, ROLE AND RESPONSIBILITIES

The purpose of the Committee is to assist the Board in discharging its duties relating to the implementation of a governance framework, so as to assist the trustees in ensuring they will be compliant with Section 7D of the Act, the safeguarding of assets, the operation of adequate systems, financial controls and reporting processes and the preparation of accurate financial reporting and annual financial statements in compliance with all applicable legal requirements and accounting standards. The Committee in carrying out its tasks will also pay due regard to the principles of good governance and codes of best practice as contained in the King Report on Corporate Governance for South Africa, the Pension Funds Act and FSB (now the FSCA) Circular 130.

### The key principles contained in the King IV report are:

1. Principle 1: The board should lead ethically and effectively. This could be achieved by adhering to practices such as integrity, competence, responsibility, accountability, fairness and transparency.
2. Principle 2: The board should govern the ethics of the fund in a way that supports the establishment of an ethical culture.
3. Principle 3: The board should ensure that the fund was and was seen to be a responsible corporate citizen.
4. Principle 4: The board should appreciate that the fund's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.
5. Principle 5: The board should ensure that reports issued by the fund enable stakeholders to make informed assessments of the fund's performance and its short, medium and long-term prospects.
6. Principle 6: The board should serve as the focal point and custodian of corporate governance in the Fund. This is the natural consequence of its fiduciary duties towards the members of the Fund.
7. Principle 7: The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.
8. Principle 8: The board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.



9. Principle 9: The board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, supported continued improvement in its overall performance and effectiveness.
10. Principle 10: The board should ensure that the appointment of, and delegation to, management contributes to role clarity and the effective exercise of authority and responsibilities.
11. Principle 11: The board should govern risk in a way that supports the fund in setting and achieving its strategic objectives.
12. Principle 12: The board should govern technology and information in a way that supports the fund setting and achieving its strategic objectives.
13. Principle 13: The board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the fund being ethical and a good corporate citizen.
14. Principle 14: The board should ensure that the fund remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.
15. Principle 15: The board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and the fund's external reports.
16. Principle 16: In the execution of its governance role and responsibilities, the board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the fund over time.
17. Principle 17: The board should ensure that responsible investing is practiced by the fund to promote the good governance and creation of value by the companies in which it invests.

The Committee will support the Board in its application of the above principles.

Committee members are required to comply with the Code of Conduct of the Board. Compliance with the Code of Conduct must include but shall not be limited to:

- Avoidance of actual or potential conflicts of interest;
- Acting in good faith, with due diligence and complying with the principles of equity and transparency as set out in the Code of Ethics and Conduct for the Board;
- Compliance with all applicable legislation.

The Committee does not relieve the Board of any of its responsibilities, but assists it to fulfill those responsibilities.

The Committee is authorised by the Board to:

- Seek information from any officer, employee of the administrator, investment consultant, investment manager or auditors of the Fund;
- Obtain outside legal or independent professional advice if this is considered necessary, after obtaining authority from the board;
- Investigate any activity within its terms of reference.

The main roles and responsibilities are as follows:

- To continuously evaluate the structure of the Fund, as well as potential future legislative changes, and the impact of that on the retirement funding industry, and the Fund in particular;
- To evaluate and recommend necessary changes to the Rules of the Fund;
- To investigate any matters relating to secret profits, and to report back/make recommendations to the Board on these matters;
- To ensure that service agreements and service level agreements are in place with all providers, and in consultation with the relevant sub-committee review all service agreements and service level agreements;
- To ensure all service providers are compliant with regulatory or registration requirements;
- To ensure that all service providers make full disclosures of all direct and indirect remuneration earned by virtue of providing services to the Fund;
- To ensure all service providers are aware of and are prepared to comply with the Fund's Code of Conduct;



- To review the effectiveness of the trustees periodically, and to assess the ability of trustees periodically;
- To review the Code of Conduct and Fund governance documents on an annual basis, and to make recommendations to the Board regarding any necessary changes;
- To monitor compliance of all trustees and sub-committees with the Code of Conduct;
- To review the Committee's mandate on an annual basis and to recommend any necessary changes to the Board;
- To review and evaluate risks faced by the Fund and recommend actions and control mechanisms to mitigate and/or control risk;
- To assess and identify the effectiveness and importance of controls to mitigate risk, and where possible actions to be taken to avoid risk exposures;
- To provide oversight in the compilation of an annual budget so that the Fund will have a means to measure expenses during a financial year, and a tool to exercise cost control;
- To provide recommendations on authority levels of the various Fund officials and representatives;
- To monitor the ongoing compliance with statutory submissions;
- To maintain a Fund information manual in terms of Section 51 of the Promotion of Access to Information Act;
- To investigate any losses as a result of third-party claims, and in consultation with the trustees, ensure that these claims are submitted to the relevant third party;
- To review and investigate any claims against the Fund;
- To advise on any matter referred to the Committee by the Board;
- To ensure the election of the member representative trustees in terms of the Rules, and the proper constitution of the Board at all times;
- To facilitate the annual external audit, and review the completeness of the audit scope;
- Assist the Board in its evaluation of the adequacy and efficiency of:
  - Accounting practices
  - Information systems
  - Auditing processes applied by the administrator in the day to day management of its business.
- Facilitate and promote communication and liaison regarding the above between:
  - The Board
  - Principal Officer
  - Administrator
  - External auditor
  - Employer
  - Any other relevant stakeholder
- Recommend the introduction of measures, which the committee believes may enhance the credibility and objectivity of financial statements and reports concerning the affairs of the Fund. Also, to review the auditors' management reports, and refer any matters relating to perceived process deficiencies and non-compliance with statutory returns;
- To annually review the beneficiary fund used by the Fund;
- The Communication Policy shall be reviewed by the Committee at least annually and procedures shall be in place to monitor compliance with same. The Committee will provide input to the Board on the content of the Fund's Communication Policy for consideration by the trustees at the annual strategy session;
- Drafting of actual communication documents: The Committee will be responsible for the drafting of all communication relevant to matters dealt with by the Governance committee. The Committee may outsource the drafting of the communication to external providers.

#### **4.1 External Audit**

The committee will:

- Assess the independence, effectiveness and performance of the external auditor and ensure that the appointment of the auditor has been approved by the Registrar of Pension Funds.
- Discuss and review with the external auditor: the audit engagement letter, nature and scope of the audit and review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements.
- Discuss and review with the external auditor the audit fee and satisfy itself that the fee payable in respect of the audit services provided is appropriate and that an effective audit can be conducted for such a fee.
- In reviewing the work of the external audit function, the Committee should ensure the external auditor has unrestricted, direct access to the Board, the chairman and to the Committee.



- Negotiate procedures, subject to agreement, to be completed beyond the minimum statutory and professional duties. The minimum, non-negotiable procedures required from the external auditors are acknowledged and accepted;
- Agree on the timing and nature of reports from the external auditors having consideration for the timing of the information to be made available by the Fund's accountants;
- Make suggestions as to problem areas that the audit must address, and consider the Fund accountant's year end check list;
- Consider any accounting treatments, significant unusual transactions or accounting judgments, that could be contentious;
- Identify key matters arising in the current year's management letter and satisfy itself that these are being properly followed up;
- Ensure that any significant ventures, investments or operations have been subjected to external audit;
- Obtain assurance from the external auditors that adequate and proper accounting and secretarial records are being maintained, and the Fund rules are being complied with;
- Discuss with the external auditors their perceptions of the material financial, actuarial and operating risks facing the Fund;
- Discuss with the external auditors any breaches of good governance and non – compliance with the Fund's Code of Conduct;
- Discuss the level of materiality adopted by the external auditors and all over and understatements not adjusted in the accounts;
- Consider the security of the Fund's assets,
- Discuss with the external auditors their assessment of statutory reports and Asset/Liability matching reports and the compliance with prescribed procedures and their alignment with the financial affairs of the Fund; and
- Discuss with the external auditors their assessment of the adequacy of internal control and compliance with prescribed procedures.

#### **4.2 Financial Statements**

Prior to the Annual Financial Statements being submitted to and approved by the trustees, the Committee will examine and review such statements, discuss the results with the auditors, and if appropriate, recommend to the trustees the approval of the results, focusing particularly on –

- the implementation of new systems;
- tax and litigation matters involving uncertainty;
- any changes in accounting policies and practices;
- major judgemental areas;
- significant adjustments resulting from the external audit;
- the representation letter to be furnished to the external auditors;
- capital adequacy;
- employer's ability to support their commitments to the Fund;
- internal control
- administration and accounting service providers' delivery and performance, and compliance with their procedures and internal controls;
- compliance with accounting standards, local and international;
- compliance with legal requirements;
- compliance with the Fund rules;
- compliance with insurance and assurance requirements;
- the quality of financial information;
- whether the annual report and accounts taken as a whole, present a balanced and understandable assessment of the position, performance and prospects of the Fund, the trustees report and principal officers statement;
- the external auditors' proposed audit report and their factual findings;
- the accurate representation of the Fund's assets, and
- problems and reservations arising from the external audit.



Following approval of the Annual Financial Statements, these documents are to be submitted to the Financial Sector Conduct Authority and made public. Summaries or highlights of these statements will then be given to members and Fund stakeholders.

#### **4.3 Internal Control**

- The Committee will review the effectiveness of the Fund's systems of internal control, including internal financial control and business risk management, which includes trustees' responsibility for -
  - maintaining proper and adequate accounting and secretarial records;
  - controlling the overall operational, cost and financial reporting environment continuously during the year; and
  - safeguarding the Fund's assets against unauthorized use or disposal.
- In discharging its responsibilities, the Committee will review-
  - The Fund's statement on internal control systems prior to endorsement by the Trustees
  - The procedures for identifying business risks and controlling their impact on the Fund;
  - The Fund's policies for preventing or detecting fraud;
  - The Fund's policies for ensuring that the Fund complies with relevant regulatory and legal requirements; and
  - The operational effectiveness of the Fund's policies and procedures.
- Such significant transactions not directly related to the Fund's normal business as the Committee might deem appropriate;
- Significant cases of conflict of interest, misconduct or fraud, or any other unethical activity by the Fund or any parties related to the Fund's business; and
- Other relevant matters referred to it by the Trustees.

#### **4.4 Investigations**

The Committee will ensure that the Fund's trustees direct and supervise investigations into and reports on matters; for example, breakdowns in internal control, cases of fraud, misconduct or conflicts of interest.

#### **4.5 Risk Management**

The Committee mandate should include the Committee's risk management responsibilities and make reference to its Risk Policy Statement.

The Fund has constituted a Governance, Risk and Audit committee, which has been given the oversight responsibility for reviewing the King IV Principles 4 and 11. The Fund has adopted the approach of assigning the monitoring, management and reporting on specific risks to the relevant sub-committee. The Principal Officer, with guidance from the Board, is responsible for determining the subcommittee that is most appropriate for dealing with each specific risk. Because the Governance, Risk and Audit committee has been assigned the oversight responsibility, the management of specific risks will not (as far as possible) be assigned to the Governance, Risk and Audit committee to provide objectivity in assessing the risk governance of the fund.

The Board is responsible for the governance of risk per Principles 4 and 11.

The Fund has articulated its risk governance approach in its Risk Policy Statement and it is important for the Board to:

- Review the fund vision, mission and objectives within context of current markets and environment.
- Review risk management structures and systems with regard to the fund strategy. This includes the management and structures within service providers that are responsible for the operational activities of the Fund.



- The Board should understand the risk levels that the Fund can tolerate versus the risk it is willing to take / its risk appetite

Good corporate governance requires active consideration of risk management. The future is uncertain and risk management deals explicitly with uncertainty. Organizations need to develop leading indicators rather than rely on lagging, financial indicators only. Effective risk management is a fundamental requirement for organizations to succeed and survive.

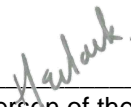
Combined assurance (based on the principles of leadership, sustainability and corporate citizenship) should be based on identified risks and how assurance is achieved and reported to the Board. This offers tangible benefits that extend well beyond providing compliance, including:


- Coordinated and relevant assurance efforts focusing on key risk exposures
- Minimized business / operational disruptions
- Comprehensive and prioritized tracking of remedial action on identified improvement opportunities / weaknesses
- Improved reporting to the Board and committees, including reducing the repetition of reports being reviewed by the different committees

**4.6 Other matters**


To advise on any matter referred to the Committee by the Board.


This document was approved by the DSV Flexi Retirement Fund (Pension and Provident Sections) Board of Trustees at a meeting held on 9 April 2020.

Signed:   
Chairperson of the Board

  
Trustee

Signed:   
Chairperson of Governance Committee

  
Trustee

Signed:   
Principal Officer