



## TERMS OF REFERENCE AUDIT AND RISK MANAGEMENT COMMITTEE

### Policy Statement

**Derrimon Trading Co. Ltd.** (*hereinafter referred to as **Derrimon** or the Company*) is one of Jamaica's leading distributors of consumer products. Derrimon is known for its matchless dependability and pioneering spirit, that has made the company expand exponentially every year since its inception. The company was incorporated in 1998 as a public company with limited liability under the Companies Act of Jamaica. During 2013 the company became listed on the Junior market of the Jamaica Stock Exchange (JSE). As a listed entity the company is required to maintain compliance with the JSE rules. The Board of Directors is responsible for ensuring full compliance with the JSE Rules and the Companies Act.

Pursuant to the JSE Rule Book each listed Company is required to establish an Audit Committee. The Board of **Derrimon** has therefore established an Audit and Risk Management Committee (*hereinafter referred to as the "Committee"*) as a standing committee of the Board. The Committee exercises an independent review function to assist the Board in fulfilling its audit and risk management oversight responsibilities.

The Audit Committee acts to ensure that the Company adheres to its governance mandate in the specific areas of enterprise risk management, financial monitoring, auditing policies and internal controls. The COMMITTEE provides a critical service to the Board by bringing to the Board's attention pertinent information raised by Internal and External Audits as well as from the Committee's review and assessment of all risks faced by the Company.

#### **A. PURPOSE**

The Audit and Risk Management Committee (the "Committee") is appointed to assist the Board in fulfilling its oversight responsibilities with respect to matters concerning:

- a. the systems and structures of internal control;
- b. the internal audit function;
- c. risk management function;
- d. The integrity of the company's financial statement and information;
- e. the external audit process, and
- f. compliance with financial regulatory and statutory reporting requirements.

#### **B. MEMBERSHIP**

1. The COMMITTEE shall be comprised of **no less than three (3) members** who should all be independent non-executive directors.
2. The Board through the Chairman shall appoint the Chairman of the Committee.
3. Members will be appointed by the Board of directors.

4. At least one member of the Committee should be financially literate and should be a qualified accountant or should have significant, recent and relevant financial, audit and risk management experience and knowledge.
5. The Committee should not include the Chairman of the Board.
6. The Company Secretary will be the assigned Secretary for the COMMITTEE. In the absence of the Company Secretary, the Chair of the COMMITTEE may make alternate arrangements through the Chief Executive Officer (CEO) for a member of the Company's staff to act as a Secretary to the Committee.
7. The **Internal Auditor** shall **be invited** to all Committee meetings.
8. The Committee has the power to require any member of staff to attend meetings.
9. The Chief Financial Officer (CFO) shall attend all meetings.

#### **C. MEETINGS, QUORUM AND PROCEDURES**

1. The COMMITTEE will determine its own rules of procedure, provided they are consistent with the regulations that govern DERRIMON generally.
2. The COMMITTEE will meet at **least quarterly** and more frequently as circumstances require. Meetings should be held at a time to allow for timely presentation of the quarterly financial report to the Board for approval and submission to the JSE within the timelines stated in the JSE Rules.
3. Failure to attend 3 consecutive meetings without acceptable reasons being given to the Committee Chairman, will give rise to a consideration for discontinuance on the membership of the Committee.
4. The Chairman of the COMMITTEE or a majority of the members of the Audit & Risk Management Committee may call a special meeting of the COMMITTEE.
5. **The Committee's quorum will be fifty percent (50%) membership plus 1.**
6. The COMMITTEE may form sub-committees for any purpose that the COMMITTEE deems appropriate and may delegate to such sub-committees such power and authority as the COMMITTEE deems appropriate. No sub-Committee should consist of fewer than two members.

7. Meeting agendas and documents will be prepared for each meeting and provided within a **minimum of 3 working days in advance** to the Committee members along with appropriate briefing materials.
8. Senior Management or other persons, whose advice and counsel are sought by the COMMITTEE, may be invited to meetings of the Committee to provide such pertinent information as the COMMITTEE requests.
9. The COMMITTEE shall keep written minutes of its meeting, which minutes shall be maintained with the records of the Board.
10. All committee members are expected to attend and participate at each meeting in person or via teleconference or video conference electronically.
11. An annual report, which speaks to the activities of the DERRIMON's Audit & Risk Management Committee, will be included in the Corporate Governance section of the DERRIMON Annual Report.

#### **D. SPECIFIC RESPONSIBILITIES AND DUTIES**

The Audit and Risk Management Committee will have the following duties and responsibilities:

1. Advise the Board on:
  - a) the adequacy, efficiency and effectiveness of the risk and internal control structure and systems within the Company; and
  - b) the independence of the auditors auditing the Company.
2. Reviewing and where appropriate recommending the financial position of the company;
3. Oversee any internal audit function of the Company;
4. Review and advise the Board on the annual external auditor's report;
5. Utilize budgetary provisions made by the Company to enable the Committee to engage specialist and secure training to assist it to adequately fulfil its mandate;
6. Review the Company's financial operational policies, rules and regulations, procedures and any revisions to them to ensure practices are in place to ensure compliance with the JSE requirements;
7. Review related party transactions and take actions as appropriate.
8. To provide oversight for the Company's business continuity programmes.
9. In the case of the Company undergoing any special audit or examination, review and advise the Board with respect to the report of that audit or examination; and
10. Perform such other functions as assigned by the Board from time to time.

#### **D.1 Risk Assessment and Internal Controls**

The Committee shall:

- i. Consider the adequacy of risk management and internal controls systems as well as the accuracy of financial reporting through reviewing (inter alia) the:
  - a) mechanisms for the assessment and management of risk;

- b) plans and results of internal audit activities;
  - c) plans and results of external audit activities;
  - d) adequacy of managements' response to issues identified by all audit activities; and
  - e) submission of all regulatory and statutory reports.
- ii. Submit recommendations to the Board on risks that may be accepted by the Company.

## **D.2 External Audit**

The Committee shall:

1. Review the audit engagement letter, audit plans, timing and scope of the external audit, identifying special areas of concern to the external auditors;
2. Review minutes of any oral presentation or written reports made by the external auditors;
3. Review the contents of the Management Representation Letter to the external auditors;
4. Review the annual audit report and Audited Financial Statements with the external auditors, prior to their recommendation to the Board;
5. Review all recommendations of the external auditors and, where appropriate, recommend or ascertain that necessary corrective actions have been taken;
6. Review with management, the external auditors and legal officer any significant litigation, claim, or contingency which could have a material effect on the financial position of the Company;
7. Review external auditor's performance within the framework of established policy and review annual audit fees in the context of the plan and scope of the audit and make recommendations to the Board;
8. Reviewing any problems or challenges encountered by the independent auditors during the course of the audit;
9. Pre-approving all audit and permitted non-audit services to be performed by the independent auditors.
10. Recommend to the Board the appointment of external auditors as required by law.
11. Ensure there is mandatory rotation of the engagement partner of the external auditors.

## **D.3 Internal Audit**

The Committee shall:

1. Annually, review and approve changes, if any, to the Internal Audit charter;
2. Review and approve the annual audit plan and all major changes to the plan;
3. Review Internal Audits' activity and performance relative to its plan;
4. Review with the Internal Auditor the internal audit budget;
5. Ensure there are no unjustified restrictions or limitations on the internal audit function;
6. Periodically, the Internal Auditor will meet with the Committee, without management, to discuss any matters that the Committee or the Internal Auditor believes should be discussed privately;
7. Initiate special internal audits, if required;

8. Review the reports prepared by the Internal Auditor and the response or determination of management with respect to any findings or recommendations;
9. Contribute to the performance evaluation of the Internal Auditor; and
10. Approve the selection and termination of the Internal Auditor.

#### **D.4 Financial Statements Oversight**

The Committee shall:

1. Review and advise the Board on the audited Financial Statements and management and discussion analysis that are to be included in the Annual Report of the Company;
2. Review and advise the board on the quarterly financial statements to be submitted to the JSE;
3. Review and discuss with management the accounting and financial reporting policies and practices including any changes.
4. Reviewing accounting and reporting standards and impact of these on the company; and
5. Review the integrity of monthly financial statements.

#### **E. SELF-EVALUATION**

- a) The COMMITTEE shall at least annually conduct a self-evaluation of its performance.
- b) In conducting this review, the COMMITTEE will also evaluate whether this term of reference appropriately addresses the matters within its scope including but not limited to attendance and participation.
- c) In conducting this review, the COMMITTEE will address all matters that it considers relevant to its performance, including at least the following:
  - i. The adequacy, appropriateness and quality of its information and recommendations to the Board;
  - ii. The manner in which they were discussed or debated;
  - iii. Whether the number and length of meetings are adequate for the COMMITTEE to complete its work in a thorough and thoughtful manner and
  - iv. Understanding of the business, its objectives and services.

#### **F. COMMITTEE SECRETARY**

The Secretary for the Committee shall be the Company Secretary who shall attend all meetings and shall take the Minutes of the meetings. The Committee Secretary is required to:

- a) circulate the notices and Minutes of the Committee meetings;
- b) distribute to Committee members, **3 working days prior to the meetings** of the Committee, all agenda and documents of meetings, reports and/or related documents which are prepared for consideration by the Committee;
- c) keep detailed records of the Committee's meetings; and
- d) have such other duties as may be assigned by the Committee.

#### **G. REPORTING RESPONSIBILITIES**

The Committee shall report to the Board of Directors after each meeting of the Committee. A written report shall be submitted to the Board through the Chairman of the Committee, at the following Board Meeting.

#### **H. REMUNERATION**

The Company shall make provision for remuneration of Committee Members and the amount is determined by the Board of Directors' compensation policy.

#### **I. CONFLICT OF INTEREST**

Where there is a conflict of interest, the Committee Member so affected shall declare his/her interest to the Committee and the details of the conflict are to be recorded by the Committee Secretary.

The Committee Member who has a conflict of interest shall not participate in the deliberations on the particular matter or exert any influence on the voting on the resolution in respect of the transaction, and will excuse himself from the discussions in respect of those interests during the period of discussion of the matter.

#### **J. CONFIDENTIALITY OF COMMITTEE INFORMATION**

All information received by the Committee is confidential and is the property of DERRIMON and must not be disclosed to parties outside of the organisation without prior approval of the Board.

#### **K. AUTHORITY**

The Committee has the authority to conduct investigations into any matters within its scope of responsibility and those matters referred by other Board Committees. In so doing it is empowered to:

- a) Investigate any matter brought to its attention with full access to all books, records, facilities, and personnel of DERRIMON;
- b) Seek any information it requires from any officer or employee of DERRIMON and such officers or employees shall be instructed by the Board to respond to such enquiries;
- c) Meet with officers/employees of the DERRIMON for the purpose of furthering its investigations; and
- d) Provided that the approval of the Board is first obtained, retain outside counsel or other experts to advise the Committee or assist in the conduct of an investigation.

#### **L. AUTHORITY TO ENGAGE ADVISORS**

The COMMITTEE, with the prior approval by the Board, may engage outside advisors as it deems appropriate and necessary to assist it in the effective discharge of its functions.



**M. ACCESS OF INTERNAL AUDITOR**

The Internal and External Auditors shall have direct access to the Audit and Risk Management Committee at any time. Either auditor shall have the right to contact the Chairman of the Audit and Risk Management Committee to request a special meeting.

The Audit and Risk Management Committee is authorized to review internally and externally generated complaints and concerns regarding internal operations, controls, general policy and procedure which have been brought to the attention of management.

**N. RESPONSIBILITY OF MANAGEMENT**

The management of DERRIMON is directly responsible for the Company’s accounting, financial operational and administrative processes, including the organization and maintenance of appropriate internal controls designed to safeguard assets, and establishing the reliability of accounting, financial, operational and administrative information and ensuring adherence to approved policies.

**O. REVIEW AND ASSESSMENT OF TERMS OF REFERENCE**

The Board will conduct a review and assessment of the COMMITTEE Terms of Reference at least every 2 years in such manner as the Board deems fit.

**DOCUMENT CONTROL**

<i>Version</i>	<i>Date</i>	<i>Date Approved by Board</i>	<i>Area Changes made</i>
1 <sup>st</sup>	December 2020		