



AUDIT & COMPLIANCE COMMITTEE REPORT

 **PRINCIPLES:** 8 12 13 15

The committee is constituted as a statutory Mr Price Group Ltd committee in respect of its duties in terms of section 94(7) of the Companies Act (71 of 2008), and has been delegated the responsibility to provide meaningful oversight to the following functions: internal and external audit, finance, IT governance and compliance functions. The committee mandate is published on the group's website: www.mrpricegroup.com

The committee members and their qualifications and experience are detailed in the board report on pages 39 and 42.

Purpose and role: 8

The committee provides independent oversight of the effectiveness of the group's assurance functions and services and the integrity of financial statements. In doing so it assists the board to discharge its responsibility to:

- Safeguard the group's assets
- Operate adequate and effective systems of governance, financial risk management and

internal controls

- Prepare materially accurate financial reporting information and statements in compliance with applicable legal/regulatory requirements and accounting standards
- Monitor compliance with laws, regulations and adopted non-binding rules, codes and standards, and
- Provide oversight of the external and internal audit functions including the appointment of the external auditor and the chief audit executive (CAE).

The key areas of focus for the reporting period were:

- The impact of mandatory auditor rotation
- The suitability assessment of the external auditor and audit partner
- The interpretation and impact of IFRS 9, 15 and 16
- Appointment of a CAE, and
- Overseeing ongoing regulatory tax and credit matters. Further detail on the SARS and NCR matters are included in the CFO's report on pages 24 to 28 and annual financial statements note 26.

THE COMMITTEE PROVIDES INDEPENDENT OVERSIGHT OF THE EFFECTIVENESS OF THE GROUP'S ASSURANCE FUNCTIONS AND SERVICES AND THE INTEGRITY OF FINANCIAL STATEMENTS.



COMMITTEE STATEMENT 8

The committee is satisfied it has fulfilled its responsibilities in accordance with its mandate for the 2018 financial year.

COMBINED ASSURANCE 15

The committee oversees that the assurance arrangements in place are effective. The combined assurance model comprises management, the internal audit function and external audit services. The committee is satisfied that these arrangements are effective in providing a robust control environment which enables the provision of reliable information for decision-making purposes.

Management and reporting 8

Having given due consideration, the committee is of the view that Mark Blair, who is the financial director and carries the title of chief financial officer (CFO), possesses the appropriate expertise and experience to meet his responsibilities and that the group's financial function incorporates the necessary expertise, resources and experience to adequately

and effectively carry out its responsibilities. The committee believes the group has appropriate financial reporting procedures and is satisfied these procedures are operating adequately. This belief is supported by the effectiveness of internal controls being maintained at a high standard which translates into accurate financial and related information presented to stakeholders in the integrated report. There are no known significant internal financial control weaknesses. Significant matters considered in relation to the annual financial statements were the approach to determining both inventory and trade receivables provisioning, assessment of impairments and assumptions used, going concern assumption, quality of earnings and adoption of new IFRS standards and disclosures. Based on supporting information presented by the external auditors including financial analysis, prior history and best practice, the committee is satisfied these matters were adequately addressed.

External audit 8

Ernst & Young Inc (EY) were the group's appointed

external auditor for the reporting period. Although EY has been the group's auditors since October 1989, the committee is satisfied EY is independent of the group. In reaching this conclusion, the committee considered (i) the designated partner, Vinodhan Pillay, was assigned to the group audit in F2016, (ii) the group has a clearly defined and strictly followed non-audit services policy; the extent of non-audit services is immaterial and is continuously monitored, with no excessive, unusual or unnecessary engagements noted; and (iii) the appointment of the group corporate finance director at the beginning of the reporting period, now responsible for overseeing the conduct of the external audit and is the main point of contact with the designated partner, mitigates the risk of familiarity between EY and senior management.

The committee believes the group received a high quality of external audit taking into account the standard of audit planning and scope of activities performed, reliance on work performed by other audit firms and the internal audit function, the audit

team assigned to the audit, EY's independence, its relationship with stakeholders, and understanding of the business and the extent of non-audit services provided. Particular focus was placed by the committee on EY's reliance on other firms for assurance and it was satisfied this is isolated to the group's insurance cell captive entity audited by PriceWaterhouseCoopers. EY met with the committee prior to the approval of this report to discuss matters of importance to the auditor and the committee regarding the group's financial statements (as detailed under the "Management and reporting" heading), commentary thereon and general affairs.

The group acknowledges the requirements of mandatory firm rotation as prescribed by IRBA effective 1st April 2023. EY's tenure was discussed in light of these changes. The committee agreed to rotate external auditors from the 2021 financial year to align with the rotation of the current audit partner. However, this timing will be influenced by the progress of the significant IT projects and suitability of other audit firms considering current

corporate governance issues in which a number of large firms are implicated. A final decision will be made in due course.

The committee chair met with EY's national audit partner and the Africa professional practice director to discuss the accreditation documents submitted by EY for the purposes of conducting the suitability assessment of EY and the designated audit partner in terms of the JSE Listing Requirements. On the basis of the assessment and the high quality of audit, the committee recommends to the board and shareholders that EY be re-appointed as the external auditors and Vinodhan Pillay as the designated auditor for the current financial year (F2019). Further, in making this recommendation, the committee considered the various corporate scandals that came to light in the last year and have tainted a number of the bigger external audit firms. The resolution for the re-appointment of EY as the group's external auditors is on page 135 of the Notice of AGM.

Internal audit

Independence and authority

All matters of internal audit (IA) scope, procedures, frequency, timing, or report content are free from any form of influence. This ensures an independent mind-set necessary in providing objective opinions and feedback. Additionally, in promoting independence, the following deliberate structures, interventions and processes are in place:

- The committee approves the appointment (and removal), contract and remuneration of the CAE
- The CAE reports functionally to the committee and administratively to the CFO
- IA has direct access to the committee chair, as well as free and unrestricted access to all areas within the group, and
- The CAE has a standing invitation to attend any strategy session, risk assessment session, forum, committee, and divisional board meeting.

The independence of IA is formally considered by the CAE and the committee on an annual basis

or as and when changes to the organisational positioning occur. It has been determined that IA has remained independent of all operational functions, and the functional reporting to the committee and administrative reporting to the CFO has enabled appropriate organisational positioning. IA applies high professional audit standards through on-going adherence to the Standards for Professional Practice as well as the Codes of Ethics prescribed by the South African Institute of Internal Auditors. The external, independent quality review of the IA function performed in 2017 revealed the function is well established and well run. Recommendations for improvement were considered and where appropriate for our business, implemented. Accordingly, a further review was not performed in F2018 and will be considered in due course. The committee is satisfied the IA function is effective in providing meaningful assurance. The CAE joined the group on 1 April 2018, thus for the period under review there was no incumbent CAE for the period July 2017 to March 2018. The IA function was competently managed during this time by the senior audit manager.

Approach

The function adopts a risk-based integrated audit approach which includes the following steps:

- Mapping of key risks identified to specific audits to arrive at an audit plan
- Recommendation of the annual audit plan and proposed resource needs to the committee for approval
- Keeping apprised of the changing risk environment across the group to ensure a constant review of risks versus the year audit plan and available resources
- Amending the annual audit plan having considered the impact of the changes to ensure achievement of intended assurance conclusions, coverage, scope and the impact of changes from a resource perspective and
- Providing quarterly reporting of the coverage, audit plan changes, audit results and opinions on the level of governance, risk and control across the business and in accordance with planned or amended coverage and scope to the committee,

and divisional boards and to management on an on-going basis.

There is a large degree of involvement by IA in information and technology (IT) throughout the group to ensure satisfactory IT governance and assurance. IA is involved in all new major IT systems from an assurance perspective.

Efforts of IA are closely co-ordinated with those of the external audit team to provide the most efficient and effective assurance to the audit committee.

2018 Audit results

IA confirms there are no undue scope limitations or impairments to independence. Sufficient and appropriate audit procedures have been conducted through the completion of the risk-based audit plan and evidence gathered to support the conclusions hereinafter.

Based on the work completed for the period 2 April 2017 to 31 March 2018, conclusions are as follows:

- The effectiveness of risk management structures, systems and processes is evaluated in every audit, as far as possible and we confirm these are adequate to identify, assess and mitigate key risks and to support the achievement of the group's strategic goals
- Results of reviews performed proved that governance, risk and controls were generally adequate
- Divisional management responds immediately and appropriately to reported weaknesses and demonstrates a willingness to adopt recommended improvements
- Executive management and the board require, encourage and monitor quality and continuous improvement in the group's governance, risk management and controls
- Follow-up reviews on audits prove commitment to remediate
- Current risk management structures are proven to be reliable albeit formally evolving and
- There have been no significant instances of fraud or misappropriation identified.





EFFORTS OF IA ARE CLOSELY CO-ORDINATED WITH THOSE OF THE EXTERNAL AUDIT TEAM TO PROVIDE THE MOST EFFICIENT AND EFFECTIVE ASSURANCE TO THE AUDIT COMMITTEE.

Refer to page 5 for detail on IA's role in preparing this report.

Annual internal audit assurance statement

"It is the opinion of IA that in all material respects, controls evaluated were generally adequate, appropriate and effectively implemented to provide reasonable assurance that risks are being managed to meet the group's objectives."

COMPLIANCE 13

Delegated responsibility for guiding and monitoring the group's compliance with applicable legislation, non-binding rules, codes and standards rest with the committee. The group's compliance management framework and compliance policy is approved by the committee, that in turn delegates to senior management, the implementation and execution of compliance management as the first line of defence. The group and divisional compliance functions act as the second line of defence with the internal and external audit functions as the third line of defence.

The group compliance function assists management discharge its regulatory compliance responsibility by providing compliance risk management support. The group compliance function structure includes a group legal and compliance officer and a dedicated legal and compliance manager overseeing

compliance at MRP Money, with general oversight by the head of governance. Within the trading and support divisions (other than MRP Money) compliance is managed as part of existing roles as appropriate.

The group legal and compliance function is responsible for the day-to-day management of the compliance function, including co-ordinating the identification and management of compliance risk, identifying and assessing compliance obligations, co-ordinating divisional and functional compliance functions, monitoring, including legislative updates, reporting and record-keeping. Divisional compliance functions implement controls to meet regulatory requirements, as well as monitoring and reporting relevant to their divisions or departments.

Significant group and divisional compliance risks, trends and mitigation measures are formally reported to senior management at quarterly governance board meetings as well as to the board through both the SETS (regarding compliance matters relevant to the committee's area of oversight) and audit and compliance committee meetings.

Annually a declaration of compliance with the Business Code of Conduct which sets out day-to-day operational compliance with a wide scope

of legislation, is undertaken across the business. The results of this process are reported to the audit and compliance committee as part of its compliance oversight role. Further detail on this can be found on page 78 under the Ethics heading. Senior managers to whom responsibility for the management of priority legal compliance risks are delegated, conduct annual self-assessments of the effectiveness of such compliance and submit statements of regulatory compliance and adherence to the group compliance policy. These assessments are reviewed by the group's legal and compliance officer who provides a written report to the audit and compliance committee as substantive compliance assurance.

For the reporting period there were no repeated regulatory (including environmental regulatory) penalties, sanctions or fines for contraventions of or non-compliance with the group's statutory obligations. Other than the pending Miladys club fee matter before the National Credit Tribunal and the SARS assessment objections and appeal (both of which are covered in the CFO's report on page 27), where non-compliance has been alleged but not proved, there was no material non-compliance with the group's statutory obligations during the reporting period.

Key focus areas during the reporting period were a proactive and voluntary externally facilitated NCA compliance audit, managing local ownership requirements necessary to obtain trading licenses and permits in African countries, continued B-BBEE compliance, working towards Payment Card Industry (PCI) and data protection compliance in terms of General Data Protection Regulations (GDPR) and the Protection of Personal Information Act (POPI).

Planned areas of future focus include obtaining PCI compliance certification, achieving GDPR compliance and updating the POPI implementation plan in anticipation of the POPI becoming fully effective, implementing NCA compliance best practice, working towards improved B-BBEE compliance, and finalising local development commitments in non-South African countries to facilitate expansion.

INFORMATION AND TECHNOLOGY GOVERNANCE 12

The committee had delegated oversight of IT governance for the reporting period. From the 2019 financial year the board has delegated this responsibility to the newly established Risk and IT committee. The mrpIT division is responsible for establishing and maintaining effective internal controls over IT to appropriately manage, use and

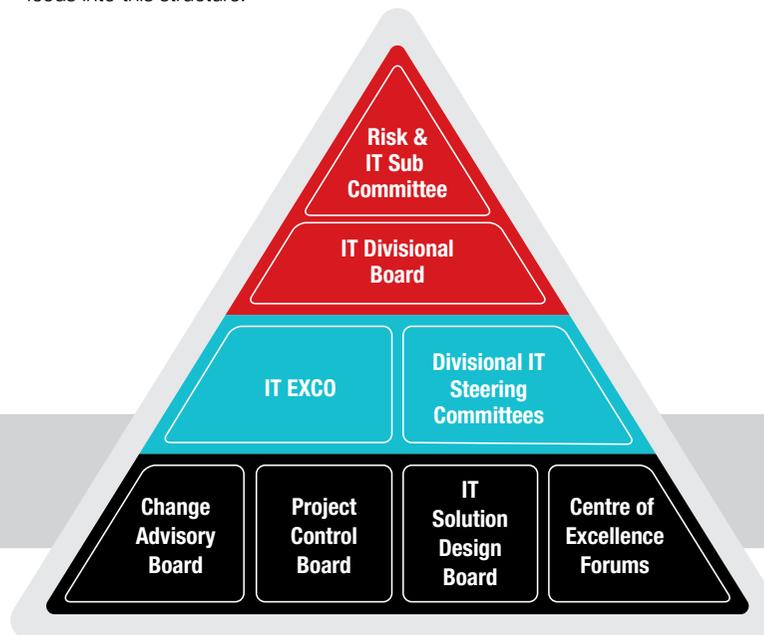
safeguard the group’s information through the use of technology aligned with best practice (Control Objectives for Information and Related Technologies) and in support of the achievement of the group’s strategies and objectives.

The system of internal IT governance and control is designed to meet the following objectives:

- Strategic alignment: focus on ensuring the linkage between business and IT activities; maintaining and validating the IT value proposition and aligning IT operations with business operations
- Value delivery: execute the value proposition throughout the service delivery cycle to ensure IT supports the strategy, optimising costs and proving its intrinsic value as a business enabler
- Resource management: optimal investment and management of critical IT resources. These include: applications, data, infrastructure and people
- Risk management: regular IT risk awareness campaigns are carried out across the organisation. Compliance with laws and regulations evaluated on an ongoing basis through the use of external and internal partners and tools. Risk mitigation and action plans developed to reduce residual risk to acceptable levels
- Performance measurement: Track and monitor IT strategy implementation, project completion, resource usage, process performance and service delivery



To effectively manage the IT function and ensure IT projects are prioritised according to strategic impact, decisions are made collaboratively and at the appropriate level, a formal structure is in place as depicted below. Further, all IT projects are formally managed by a project management office (PMO) which feeds into this structure.



The threat and management of cyber crime remains of high importance to the committee. With an ever-evolving risk landscape, threats to our business are constantly evaluated against best practice with our external and internal partners aiding to minimise the likelihood of incidence. Opportunities for improvement following a security evaluation are being evaluated and actioned. No material security or other IT incidents were experienced during the reporting period.

The IA function played a key role in monitoring the effectiveness of IT management during the period. The mrpIT internal control environment is currently rated by IA as “adequate”. The committee understands the items ranked as “high-risk” form part of management’s existing risk register and response plans and will receive continued focus to address the findings. To deliver maximum value to the group, an IT prioritisation and capacity management plan is being developed and will be implemented by the PMO in the coming financial period. Through this process project lists are being rationalised with tradeoffs made to ensure finite resources are dedicated to core projects which enable and support the group’s strategy.

The following key core projects, as strategy enablers, were the focus this financial year, and will require continued focus in the medium-term:

- Merchandise Planning and ERP (mrpWorld programme)
- Value Chain Development
- IT Operational projects to support “business as usual”

Further details on the strategic impact of these projects are included in the strategy section on page 21.

