



Audit and Compliance Committee Report

The main impact of this committee's deliberations on the group's value creation elements is reflected below:



Role

The committee is constituted as a statutory 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 of the internal and external audit, finance and compliance functions. The committee mandate is published on the group's website www.mrpricegroup.com. The committee members, their qualifications and experience, the number of meetings held and attendance at meetings is detailed in the board report on pages 70, 71 and 79.

The committee provides independent oversight of the effectiveness of the group's assurance and compliance functions and services, with particular focus on combined assurance arrangements (including external assurance service providers, internal audit and the finance function) and the integrity of the annual financial statements and, to the extent delegated by the board, other external reports issued by the group. In doing so, it assists the board to discharge its responsibility to:

- Safeguard the group's assets
- Operate adequate and effective systems of internal controls, financial risk management and governance
- Issue materially accurate financial reporting information and statements in compliance with applicable legal and regulatory requirements and accounting standards
- Monitor compliance with laws, regulations and adopted non-binding rules, codes and standards
- Provide oversight of the external and internal audit functions

Key areas of focus for the reporting period were:

- Ensuring alignment between assurance efforts and risks associated with the COVID-19 pandemic
- Monitoring the group’s fiscal performance and financial capital allocation activities
- Overseeing the transition of internal audit from in-house to outsourced
- Conducting the suitability assessment of the external auditor and audit partner
- Formulating a suitable approach to assess the capabilities and suitability of qualifying audit firms for purposes of mandatory auditor firm rotation effective in FY2023
- Monitoring the interpretation and impact of IFRS 16 amendments
- Overseeing ongoing regulatory, tax, legal, compliance and credit matters
- Considering the impact of the JSE Listings Requirements (LR) amendments on financial reporting and compliance
- Ensuring readiness for internal financial control attestation by management

Committee statement

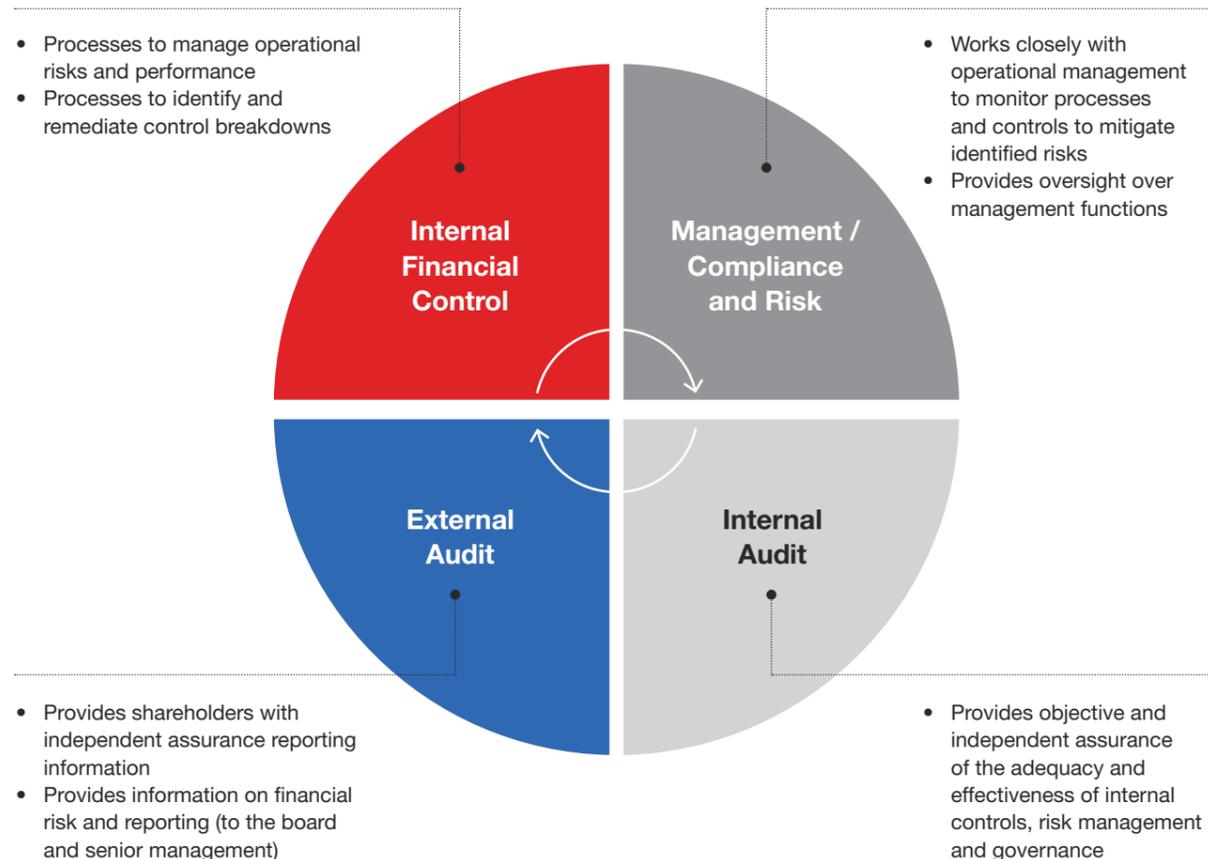
The committee is satisfied that it has fulfilled its responsibilities in accordance with its mandate for the 2021 financial year, including duties in terms of the Companies Act, JSE LR and King IV™.

Having given due consideration, the committee believes and confirms that Mark Stirton, who is the financial director and carries the title chief financial officer (CFO), possesses the appropriate expertise and experience to effectively fulfil his responsibilities. The committee is also of the view that the group’s financial function incorporates the necessary expertise, resources and experience to adequately and effectively carry out its assurance role.



Integrated Assurance

As the group embarks on its vision to be the most valuable retailer in Africa, reliable risk assurance mechanisms — that preserve and protect its future — are needed if the group is to respond to this ambitious goal.



An integrated and responsive assurance discipline supports the group’s pursuit of success, with sustainability being the core goal. Critical to success is the ability to embed a group-wide culture to promote risk-taking quickly and more confidently. The coordination of current and future assurance mechanisms enables such confidence. The road to success is guarded by rails of assurance, enabling faster navigation and a greater probability of success. *“We make and act upon key decisions faster than our competitors, speed is our advantage”* – Founders Mentality.

A myriad of assurance providers currently exist in varying forms across divisions and functional areas. The group is mindful that assurance fatigue so to counter this, integrated assurance eliminates assurance that does not deliver value or is duplicated and focuses efforts on key areas to enable future success. *“We simplify initiatives and focus on the biggest value adding priorities appropriate for our value model”* – Founders Mentality.

The journey towards achieving fully integrated assurance commenced on 1 July 2020. Activities completed to date include:

Internal Financial Control

- The approval of a multi-year audit plan linked to key risks
- An internal financial control assessment to support the CEO’s and CFO’s attestation required by the JSE LR at year-end. The control self-assessment was implemented to support internal control health validation

Management / Compliance and Risk

- Repositioning and elevating the enterprise risk management (ERM) lead role as a crucial voice in strategic decision making
- The completion of a dynamic risk assessment, providing an informed top-down view of the group’s key risks, their interconnectivity and velocity
- Completion of a risk maturity assessment that provides an accurate score of maturity, the desired state and the activities to be achieved within targeted dates
- Alignment of trading division and centre of excellence strategies to key risks thereby improving the risk culture of the business.
- Systemised tracking of risk mitigation activities committed to by risk owners

Internal Audit

- The implementation of a high-risk findings register action tracker
- Alignment of internal and external audit activities to ensure reliance
- The outsourcing of the internal audit function so that the group required assurance skills and tools are available without additional investment

External Audit

- Preparation for the external auditor rotation in FY2023
- Alignment of internal and external audit activities to ensure reliance

The informed view of the group’s risk landscape (as included in the strategy, material matters and key risks section on pages 38 - 51), albeit dynamic, allows the committee to tackle the vital phase of obtaining assurance on the effectiveness of the risk mitigation strategies in place or committed to. The next phase will include the following activities:

- A roadmap to achieve the appropriate and desired risk maturity score
- Compilation and approval by the audit and compliance committee (ACC) and risk and IT committee (RITC) of a group-wide integrated assurance policy
- The implementation of the associated frameworks to achieve integrated assurance
- Agreement on the group’s risk appetite and risk tolerance by functional area
- The compilation and streamlining of current and future assurance universe

Other areas of focus include:

- *Business Continuity* – Critical to operations is the need to assure continuity strategies and supporting processes
- *Insurance* – Inextricably linked to the group’s risk appetite, there is a need to consider that risk transfer mechanisms, such as insurance, allow for proper risk treatment
- *Occupational Health and Safety* – The approach to health and safety compliance requirements and the ability to assure a safe working environment requires improved focus and attestation

Internal Financial Control

The group has appropriate financial reporting procedures and is satisfied that these procedures are operating adequately. This is supported by internal controls effectively maintained at a high standard, translating into accurate financial and related information presented to stakeholders in annual integrated reports. 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, impairment assessments and assumptions used, going concern evaluation, quality of earnings, and adoption of new International Financial Reporting Standards (IFRS) standards and disclosures. The impact of COVID-19 on the group's financial reporting has been reviewed in conjunction with Ernst and Young Inc (EY), and additional disclosure relating to management judgement added, where appropriate. The committee also considered the impact of the JSE reports on proactive monitoring of annual financial statements. Based on the external auditors'

supporting information, including financial analysis, prior history and best practice, the committee is satisfied that matters have been adequately addressed.

The impact of the JSE LR amendments was considered, particularly the CEO and CFO sign-off on internal financial controls, which became effective for issuers with year-ends on or after 31 December 2020. This requirement seeks to reinforce compliance with the JSE LR through the attestation by executive management that the annual financial statements have been prepared in accordance with the accounting framework and can be relied upon for economic decision making, and that the internal financial controls in place are effective and adequate to prepare annual financial statements effectively.

The basis for determining materiality was approved by the committee and the committee is satisfied with the level of reporting by management on items that qualify as significant over the period.

Internal Audit

Approach

KPMG Services (Pty) Ltd commenced providing outsourced internal audit services to the group from 1 July 2020, following a Section 197 transfer of the team. As part of this process, KPMG integrated 23 in-house internal audit associates into the KPMG Advisory Practice. These associates have been absorbed into the established structure to create a new and enhanced internal audit capability that can work seamlessly across all parts of the group's business.

A three-year risk-based internal audit plan was developed and aligned to the strategic pillars of the group after considering:

- Significant risk areas as identified during the dynamic risk assessment, divisional risk assessment process and a dedicated IT risk and controls assessment
- Materiality and the requirements of the JSE LR regarding internal financial controls
- Potential external audit requirements and alignment to a combined assurance approach
- Focused sessions with all trading divisions to understand hotspots
- Consideration of latest and global audit best practices and KPMG insights
- Impact of the new enterprise resource planning (ERP) system and leveraging the use of technology

The internal audit plan therefore includes the following focus areas:

- Enterprise risk management, business continuity and combined assurance
- Internal financial controls
- External audit support and control self-assessment
- Technology, governance, risk and compliance
- Specialist technology and pro-active monitoring
- Forensics
- Cyber security
- IT project assurance
- Acquisitions (e.g. Power Fashion)

Methodology and Independence

KPMG's internal audit methodology is aligned to the Institute of Internal Audit standards and aims to provide independent, objective assurance to add value and improve the group's operations. KPMG confirms its independence for FY2021.

For the financial year ending 3 April 2021, work performed has been summarised and results reported to the committee as it pertains to the governance, risk management and internal control processes within the various parts of the group.

Conclusions

Governance, risk management and combined assurance

The maturity of the group's risk function was assessed to determine how risk management is integrated into the group's operations. The overall maturity rating placed the group at the early stages of a mature environment. Management has

committed to enhancing the process, ultimately moving to the desired maturity level over the next two years.

The draft combined assurance policy outlines the integrated combined assurance process. It translates the combined assurance policy into a combined assurance plan to identify the various lines of assurance and assurance providers involved per key risk. A high-level combined assurance maturity assessment will be performed to identify the next steps in the group's combined assurance journey.

Internal control processes

The reviews as per the FY2021 internal audit plan conclude that based on the scope of work and approach, the results of the reviews performed to date indicated some enhancements are needed within the group's internal control environment. The results of the reviews are reported to the committee regularly during the year.

Statement by Internal Audit

For the financial year ending 3 April 2021, after taking into consideration:

- The FY2021 internal audit plan
- The scope of the internal audit work and the approach followed
- The limitations of coverage and sampling
- Representations, self-assessments and other information provided by management,

KPMG believes that, based on the significance and nature of findings as reported by internal audit, the internal control processes evaluated are at an acceptable level.



External Audit

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 that EY is independent of the group.

In reaching this conclusion, the committee considered:

- Vinodhan Pillay rotated off the group's audit as designated partner, a role assumed by Merisha Kassie for FY2021
- The group has a clearly defined non-audit services policy which is strictly followed
- The extent of non-audit services is minimal and is continuously monitored, with no excessive, unusual or unnecessary engagements noted

The committee is of the view that the group received a high-quality external audit considering the standard of audit planning and scope of activities performed. The audit team assigned to the audit, EY's independence, its relationship with stakeholders, understanding of the business, and the extent of non-audit services provided, were further points taken into consideration during the assessment of the audit quality. The committee chair met with EY prior to the approval of this report to discuss key audit matters, the group's annual financial

statements, commentary thereon and general matters. Merisha Kassie has taken over as the designated audit partner for FY2021 following the rotation by Vinodhan Pillay, the previously designated audit partner. The committee has considered the documents submitted by EY as part of the committee's suitability assessment and Merisha Kassie in terms of the JSE LR. Based on this assessment, the committee recommended to the board and shareholders that EY be re-appointed as the external auditors be appointed as the designated auditor for the current financial year (FY2022). The resolution for the reappointment of EY as the group's external auditors is on page 249 of the notice of AGM.

As advised in prior years, the group has on an ongoing basis considered the requirements of mandatory audit firm rotation effective 1 April 2023, as prescribed by the Independent Regulatory Board for Auditors. The capabilities and suitability of qualifying audit firms are being assessed in the current financial year and an appointment decision will be made in Q2 FY2022 to enable a smooth transition for the rotation currently planned for FY2023. This will allow the new external auditors time to become familiar with the business to limit disruption and the risk of audit failure.

Compliance

The board governs compliance with applicable laws, regulations and adopted non-binding rules, codes and standards. The board delegates its responsibility to the committee, which is accountable for setting the direction on how compliance is managed by approving the group's compliance policy and exercising ongoing oversight of compliance governance. The committee delegates the implementation and execution of effective compliance management to the group's management as the first line of defence.

The second line of defence is the group's compliance function, which assists the board, management and associates in fulfilling their responsibility to comply with applicable compliance obligations by providing compliance risk management services. Regulatory alert systems and other professional and industry stakeholders assist the compliance function to constantly monitor the frequently changing regulatory environment to ensure that key regulatory changes are identified across all jurisdictions in which the group operates. The business impact is also determined and appropriate controls implemented to enhance the group's defensible compliance position. The group's credit and insurance business is highly regulated and in order to manage this, there is a dedicated compliance function within the Mr Price Money division which reports into the group compliance function. Implementation of compliance measures and controls is managed within other trading divisions and centres of excellence as part of existing roles as appropriate.

Annually the group's regulatory universe is reviewed by the group compliance officer, approved by the committee, and the responsibility for legislation compliance is delegated to management. The group compliance function monitors material group and divisional compliance risks, trends and mitigation measures. It formally reports to management at quarterly governance centre of excellence board meetings and the board, through the audit and compliance committee, and the social, ethics, transformation and sustainability committee (SETS) regarding compliance matters relevant to SETS's area of oversight. On an annual basis, management and the group compliance officer provide assurance to the committee in respect of their delegated areas of responsibility through the legal assurance process.

Data protection

With data being a valuable asset to the group, combined with the global focus on data protection and the South African Protection of Personal Information Act (POPIA) coming into full effect on 1 July 2021, the group has been working towards data protection compliance. In the reporting period the group appointed information officers, formalised a function-wide data protection project and project team and made progress in identifying areas requiring focus to achieve material compliance ahead of the POPIA effective date. Data protection will remain a high compliance priority for the short to medium term.

Tax and labour

The previously disclosed SARS assessment did not proceed to court as SARS conceded the appeal for the 2014 year of assessment. However, in February 2021, SARS issued

further assessments disallowing similar deductions that were claimed by the group in the 2015, 2016 and 2017 years of assessment. The group has objected to these assessments and if disallowed will submit an appeal (refer pages 55 for the CFO's report).

The Department of Labour compliance notices previously issued and mentioned in the prior reporting period regarding alleged non-compliance with the sectorial determination for "store associate" rates of pay, remain under dispute. The group maintains its position that it complies with the sectorial determination both in substance and form, and will defend these matter accordingly.

Occupational health and safety

During the reporting period, the ongoing implementation of compliance with Disaster Management Act regulations was a key priority as the government adjusted the lockdown levels to manage COVID-19 infections. Compliance efforts focused on store operations once retail operations recommenced in May 2020 following a period of hard lockdown to ensure the required operating and associate permits were obtained. Health and safety measures to protect customers and store associates were implemented (and are ongoing), including sanitising, mask wearing and social distancing practices, and store closure procedures and protocols are in place in the event of associate illness. The committee is comfortable that appropriate compliance was achieved as evidenced by the fact that no fines were issued by regulatory bodies or stores required to be closed due to material non-compliance. In addition, no material non-compliance was identified at any head office. The implementation and monitoring of COVID-19 health and safety requirements will remain a focus for the foreseeable future but is transitioning to business as usual compliance practices.

The key areas of focus for the reporting period were:

- Ensuring Disaster Management Act regulations and COVID-19 related health and safety compliance
- Implementing data protection controls and measures through a focused data protection project in working towards material compliance by 1 July 2021
- Commencing holistic review of the group compliance policy and framework

Future areas of focus are:

- Ensure Disaster Management Act regulations and COVID-19 health and safety requirements remain entrenched within the group as business as usual compliance practices
- Entrench data protection principles and controls across the group to achieve material compliance by the effective date of 1 July 2021 and implement a compliance risk management plan for ongoing compliance monitoring
- Complete the review of the group compliance policy and framework
- Continued monitoring of financial services legislation and implementation of amendments when effective, particularly the National Credit Act

