



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 98, 99, 105 and 107.

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, including financial impact of and investment in sustainability commitments
- 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:

- Monitoring the group's fiscal performance and financial capital allocation activities
- Assessing effectiveness of the group's combined assurance arrangements
- Conducting the suitability assessment of the external auditor and audit partner
- Assessing the capabilities and suitability of qualifying audit firms for purposes of mandatory audit firm rotation effective in April 2023 and making recommendation to the board for the appointment of new external auditor
- Overseeing ongoing regulatory, tax, legal, compliance and credit matters
- Considering the impact of the JSE Listings Requirements (LR) amendments on financial reporting and compliance
- Monitoring the effectiveness of internal financial controls to support management attestation
- Ensuring alignment between assurance efforts and risks associated with the July 2021 civil unrest;

- The valuation and integration of the two acquisitions, Power Fashion and Yuppiechef, which became effective during the period
- Monitoring compliance readiness in respect of data protection legislation

Committee statement

The committee is satisfied that it has fulfilled its responsibilities in accordance with its mandate for the 2022 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.

Lines of Defence

Three layers of defence exist to provide assurance on the controls in place to mitigate key risks. These include:

- 1 **Management** – Each division/centre of excellence has a nominated owner/risk champion, who is responsible for the following:
 - Updating the risk information
 - Providing assurance regarding the controls implemented to mitigate the risk
 - Designing and co-ordinating the implementation of action plans
 - Reporting on any developments regarding the risk
 - Reporting on key performance indicators
- 2 **Risk function** – Assists the board, as delegated to the risk and IT committee in the execution of its fiduciary and combined assurance arrangements and directs and coordinates assurance activities throughout the organisation. Oversees assurance activities of all second lines of defence.
- 3 **Assurance providers** (internal audit, external audit and other independent assurance providers):

- Formally reviews the effectiveness of the organisation's assurance management processes and standards on a rotational basis as approved by the board
- Shares information and coordinates activities with other internal and external providers of assurance and consulting services, to ensure appropriate coverage and the minimising of duplication of effort

Additional focus areas include:

- Business Continuity – Critical to the group's operations is the need to assure its continuity strategies and supporting processes
- Insurance – Inextricably linked to the risk appetite for the group, there is a need to consider risk transfer mechanisms such as insurance to allow for proper risk treatment. Adequate insurance cover has never been more relevant in mitigating the financial and business impacts of the July 2021 civil unrest, which was concentrated in the group's home province of KwaZulu-Natal
- Occupational Health and Safety – The group's approach to health and safety compliance requirements and its ability to ensure operations of a safe working environment, requires specific 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 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, intangible asset assessment relating to acquisitions, going concern evaluation, quality of earnings, and adoption of new International Financial Reporting Standards (IFRS) standards and disclosures. The impact of COVID-19 and the

July 2021 civil unrest on the group's financial reporting has been reviewed in conjunction with Ernst & 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 committee has considered the JSE LR which requires 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. Control self-assessment validation reviews in the store environment have been rolled out quarterly and these self-assessments support the annual JSE attestation. The scope of review by internal audit on internal financial controls, as well as review results resulted in an acceptable rating which further supports the annual JSE attestation.

The committee has noted that there are no changes to the basis for determining materiality and the committee is satisfied with the level of reporting by management on items that qualify as significant over the period.

Internal control processes

The reviews as per the FY2022 internal audit plan conclude that based on the scope of work and approach followed, some improvements are needed within the internal control environment of the group. These results are reported to the divisional board, audit and compliance, and risk and IT committees on a regular basis during the year.

Integrated Assurance

The enterprise risk management (ERM) process guides the management of key strategic risks facing the group (refer to page 68 and 69 of the integrated report). The group continues to make good progress towards its goal of integrating all assurance activities that assures the management of key risks and its ability to achieve groupwide strategic objectives. The group's integrated assurance journey sets out to achieve the following:

- The group's strategic pillars are better safeguarded through assurance mechanisms
- Optimal and cost-efficient assurance coverage is promoted with coverage directed where the group is at largest risk
- The group's stakeholders are better protected as assurance is focused on key strategic risks

| Integrated Assurance Activities | | |
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| Completed | To be completed in 12-24 months | To be completed in 24 months and beyond |
| Develop an integrated assurance (IA) master plan template aligned with ERM methodology | Report on the effectiveness of IA arrangements | Harmonise reporting to relevant stakeholders |
| Appoint an IA coordinator with roles and responsibilities | Monitor status against the roadmap | Conduct periodic IA maturity reviews |
| Develop an IA framework and methodology | Establish assurance reliance – vetting | |
| Align report type, frequency and recipients between IA providers | Develop a reliance model | |
| Table IA framework for approval at relevant oversight structure | Regular reporting of IA provided | |
| Populate key risks onto the planning template | | |
| Conduct a stakeholder needs analysis | | |
| Collate and populate existing plans into a master plan template | | |





Internal Audit

Approach

KPMG Services (Pty) Ltd commenced performing outsourced internal audit services to the group from 1 July 2020, following a Section 197 transfer of the in-house team. As part of this process, KPMG successfully integrated 23 internal audit associates into the KPMG Advisory Practice.

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) and leveraging the use of technology

The internal audit plan therefore includes the following focus areas:

- ERM, 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 and whistleblower service
- Cyber security
- IT project assurance

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 company's operations. KPMG confirms its independence for the reporting period.

For the financial year ending 2 April 2022, 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 risk function at the group 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 progressed well towards the desired maturity level over the year.

The 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 combined assurance roadmap has



been developed to provide the group with a 24 month and beyond view to maturing combined assurance.

Statement by Internal Audit

For the financial year ending 2 April 2022, after taking into consideration:

- The FY2022 internal audit plan
- The scope of the internal audit work and the approach followed
- The limitations of coverage and sampling and
- Representations, self-assessments and other information provided by management, we believe that, based on the significance and nature of findings as reported, the internal control processes evaluated are at an acceptable level.

External Audit

EY was the group's appointed external auditor for the reporting period. Although EY has been the group's auditor since October 1989, the committee is satisfied that EY is independent of the group.

In reaching this conclusion, the committee considered:

- Merisha Kassie, the designated partner, has been in the role since FY2021 and has therefore performed the role of designated audit partner for less than five years
- 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. The committee thanks EY for their work and partnership with the company over the years.

During the financial period the committee, supported by the group's finance leadership, commenced the selection of the group's new external auditors as required by mandatory audit firm rotation (effective 1 April 2023). The capabilities and suitability of qualifying audit firms was assessed to enable a smooth transition for the planned rotation in FY2023. As communicated through SENS on 1 September 2021, the committee selected PricewaterhouseCoopers Inc. (PwC) and Sharalene Randelhoff as the designated audit partner, subject to shareholder approval. Subsequent to this communication, the committee has been engaging with PwC leadership post the publication of the Zondo reports into state capture and the reference it makes to PwC therein. The outcome of these engagements may affect the board's decision to propose their appointment to shareholders in the notice of AGM.

Compliance

The board, which is ultimately responsible for compliance, is committed to complying with the company's Memorandum of Incorporation and all applicable laws, regulations and adopted non-binding rules, codes and standards in the countries in which the group operates. 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. The constantly changing regulatory environment is monitored using regulatory alert systems for both South Africa and Africa as well as involvement in and publications of professional and industry bodies and stakeholders. This assists the compliance function to monitor the frequently changing regulatory environment and ensure that key regulatory changes are identified across all countries in which the group operates. The business impact is also determined and appropriate controls implemented to enhance the group's defensible compliance position. Mr Price Money, the group's credit and insurance business, is highly regulated and in order to manage this, there is a dedicated compliance function within the division which reports to and aligns with 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 committee, and the social, ethics, transformation and sustainability committee (SETS) regarding compliance matters relevant to the SETS areas of oversight. On an annual basis, senior 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

As the custodian of valuable data, the group has continued its focus on data protection to achieve material data protection compliance and protect the integrity of the data in its possession, having regard to the constant threat of cyber-attacks. In the reporting period the data protection project team continued to focus on material tasks required to achieve material compliance with the South African Protection of Personal Information Act (POPIA), which became effective on 1 July 2021. This included updating and reinforcing the group's privacy and information security policies. The unavoidable risk of human error in data breaches has necessitated training and awareness across the business, both in the store and head office environments. This has been a joint collaboration with the group's technology function and will receive continued focus. Data protection will remain a high compliance priority for the short to medium term.

Tax and labour

As previously disclosed, SARS issued assessments

disallowing certain deductions that were claimed by the group in the 2015, 2016 and 2017 years of assessment. The group has objected to the assessment and appealed the commissioner's decision to disallow the objection. (Refer pages 76 to 83 of the integrated report for the CFO's report).

The Department of Labour compliance notices previously issued and mentioned in prior reporting periods regarding alleged non-compliance with the sectorial determination for "store associate" rates of pay, have been suitably responded to and withdrawn, save for one which remains under dispute. The group maintains its position that it complies with the sectorial determination and will continue to defend these matters should they arise.

Occupational health and safety

During the reporting period, the Disaster Management Act regulations and COVID-19 health and safety requirements remained entrenched within the group, even as government adjusted and eased the lockdown levels to manage COVID-19 infections. Compliance efforts remained focused on head office and store operations with health and safety measures to protect customers and store associates, 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 remains comfortable that appropriate compliance was achieved as to date no fines have been 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. With the national state of disaster being lifted on 5 April 2022, the group will implement the regulations, when issued, in terms of the National Health Act.

The committee is satisfied that there were no material non-compliance matters identified including no material non-compliance identified with environmental legislation.

Key areas of focus for the reporting period were:

- Ensuring Disaster Management Act regulations and COVID-19 health and safety requirements remained entrenched within the group as business-as-usual compliance practices
- Entrenching data protection principles and controls across the group to achieve material compliance with South African data protection legislation effective 1 July 2021
- Completing the review of the group compliance policy and framework
- Monitoring financial services legislation, particularly the National Credit Act, and increasing continuous monitoring activities

Future areas of focus are:

- Formalise additional, tailored training on data protection as part of new employee induction and roll out to all existing employees
- Continuous monitoring of data protection compliance in high-risk business activities
- Continued monitoring of financial services legislation with a specific focus on FAIS and FICA
- Formalise risk-based integration of compliance oversight of acquired businesses.

