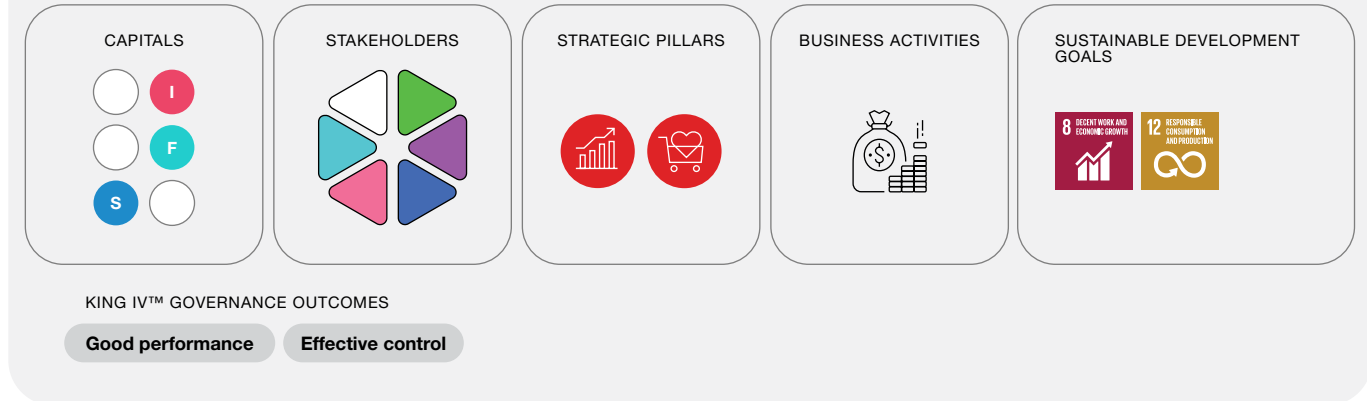




# Audit & Compliance Committee Report



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



## Role

Chair: Daisy Naidoo  
 Members: Mark Bowman, Mmaboshadi Chauke, Harish Ramsamer (from 1 July 2023)

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](http://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 127, 128 and 138 respectively.

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 FOCUS AREAS | FY2023

- Monitoring the group's fiscal performance
- Assessing effectiveness of the group's combined assurance arrangements
- Conducting the suitability assessment of the external auditor and audit partner in relation to EY's reappointment for the reporting period
- Conducting an external audit tender process, including a suitability assessment, in respect of Deloitte's proposed appointment for FY2024
- 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's internal financial control attestation
- The valuation and integration of the Studio 88 acquisition, effective 4 October 2022
- Monitoring compliance activities to ensure no material breaches of relevant legislation

## Committee statement

The committee is satisfied that it has fulfilled its responsibilities in accordance with its mandate for the 2023 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

The enterprise risk management (ERM) process guides the management of key strategic risks facing the group (refer to page 93 and 94 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

### BOARD OF DIRECTORS Risk & IT Committee

01	02	03
<b>First line of defence</b>	<b>Second line of defence</b>	<b>Third line of defence</b>
Operating controls	Risk management	Internal audit
Direct control and monitoring by management	Governance and compliance	External audit
		Other assurance providers
<b>Risk ownership</b>	<b>Governance and compliance</b>	<b>Other assurance providers</b>

## RISK

Risk ownership is handled by front line managers who have day-to-day ownership and management of their risks.

Risk control is a management and oversight function that owns aspects of the risk process. Second-line functions develop, implement and modify risk and internal control processes. In the group this would include risk management and potentially other functions such as governance and compliance.

Risk assurance provides independent confirmation to senior management and the board that the first and second lines' efforts are consistent with expectations. This mostly includes the internal audit function. The main difference between this third line of defence and the first two, is its high level of organisational independence.



## 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.

Mr Price Group operates in a highly volatile, global community where various interconnected forces are driving extensive organisational transformation and, in turn, disrupting internal audit. Reacting to these new demands required new thinking, formulating a value proposition with a different lens on how Mr Price Group earns and maintains the trust of its stakeholders, changes in mindset, new capabilities and new delivery models. Internal audit therefore focused on working more efficiently, creating added value by providing actionable insights in less time with limited resources.

### 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 regarding internal financial controls
- External Audit requirements (including the impacts of the new ISA 315 Auditing Standard) and alignment to a combined assurance approach
- King IV™ report on corporate governance
- 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) on the control environment

### THE INTERNAL AUDIT PLAN THEREFORE INCLUDES THE FOLLOWING FOCUS AREAS:

- ERM, business continuity and combined assurance
- Internal financial controls (IFC) assessments
- IT General Controls across multiple systems and applications
- External audit support and control self-assessment
- Technology, governance, risk and compliance
- Specialist technology and proactive monitoring
- Fraud risk management
- 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 FY2023.

For the financial year ending 1 April 2023, work performed has been summarised and results reported to the respective committees for governance, risk management and internal control processes within the group.

### Conclusions

#### Governance, risk management and combined assurance

The maturity of the risk function of the group was assessed in 2021 and follow up reviews were performed in the 2022 and the current financial year. The overall maturity rating placed the group as a mature environment. Management have progressed well towards the desired maturity level over the past two financial years.

The combined assurance policy outlines the integrated 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 exists to provide the group with a "24 month and beyond" view to maturing combined assurance. Management are progressing well in implementing key activities in the combined assurance roadmap. Internal audit extended combined assurance activities to include an assessment of the adequacy of the assurance provided by selected key service providers.



### Internal control processes

The reviews as per the FY2023 internal audit plan conclude that based on the scope of work and approach followed, the results indicate improvements are needed on certain areas within the internal control environment of the group, as detailed below. These results were reported to the divisional board, Audit and Compliance Committee, and Risk and IT Committee on a regular basis during the year.

### Statement by Internal Audit

For the financial year ending 1 April 2023, after taking into consideration:

- The FY2023 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,

the IT general controls environment, controls over trade payables and inventory processes were rated as weak mainly due to the challenges arising from the Oracle Retail ERP implementation and the significance and nature of internal audit findings reported. The remaining internal control processes that were reviewed were assessed as acceptable across the group.

## External Audit

EY was appointed as the group external auditor for the reporting period following the decision to postpone the auditor rotation for FY2023 with a new tender process for selection and appointment of auditors for FY2024.

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 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 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 acknowledges the three matters identified by EY as **key audit matters** (see page 16 to 18), and notes the following:

- The Studio 88 acquisition was a significant acquisition for the group. The purchase price allocation resulted in the recognition of significant intangible assets and goodwill, the valuation of which is inherently complex and judgmental in nature, involving the use of estimates. Management engaged a third party valuation expert to assist it with the purchase price allocation
- The recent acquisitions have resulted in goodwill and indefinite useful life intangible assets of R5.2bn being recognised at the year end. Management has performed the annual impairment test, using discounted cash flow models which are inherently complex and judgmental in nature due to the level of estimation uncertainty associated with forecasting future cash flows
- The implementation of the Oracle ERP system and its impact on financial reporting controls resulted in significant audit effort. The system implementation and subsequent stabilisation resulted in several corrections needing to be made. This caused delays in the resolution of unreconciled accounts balances. Due to isolated control breakdowns over inventory and accounts payable, EY could not proceed with a 'test of controls' audit approach and therefore resorted to a substantive approach to obtain comfort over the validity, completeness, and accuracy of key account balances at year end with additional and extensive system auditing performed. A financial control enhancement project plan was presented to the committee by the CFO to demonstrate the remedial steps in place to close the known control gaps and the timing thereof. This project will be implemented with immediate effect, prioritising high control risk areas.

In relation to the groups most material balance sheet line items being right of use assets and lease liabilities, in conformance with the IFRS 16 standard, management have made considered and consistent judgement in the application of the accounting standard relating to the exercise of renewal options and assumptions on renewal escalation rates. The assumptions made to inform management's judgment are well supported by the group's historical empirical data on lease renewals. The committee agrees with the judgements adopted by management, which are also concurred by EY.

The capabilities and suitability of qualifying audit firms were assessed in FY2023 to enable a smooth transition for the rotation planned for FY2024. The committee has considered the documents submitted by Deloitte & Touche (Deloitte) as part of the committee's suitability assessment and the designated audit partner, Camilla Howard-Browne, in terms of the JSE LR. Based on this assessment, the committee recommended to the board and shareholders that Deloitte be appointed as the external auditors and Camilla Howard-Browne as the designated auditor for FY2024. The resolution of the appointment of Deloitte as the group's external auditor is on page 5 of the **notice of AGM**. The committee and group management extend sincere thanks and appreciation to EY for their partnership and valuable assurance services provided since the relationship commenced in 1989. The group welcomes Deloitte as its new external auditors for FY2024 and looks forward to an equally productive relationship.

## Compliance

The board, which sets the tone for compliance, is ultimately responsible for and committed to ensuring the group complies 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 group's regulatory universe is reviewed annually and updated by the group compliance and ethics officer, approved by the committee, and the responsibility for legislation compliance is delegated to management.

The constantly changing and complex regulatory environment in which the group operates, is monitored using regulatory alert systems for both South Africa and Africa as well as publications by professional and industry bodies and stakeholders. This assists the compliance function to monitor the regulatory environment and ensure that material regulatory changes are identified across all countries in which the group operates. The business impact is also determined and appropriate controls implemented to ensure the group remains in a defensible compliance position.

Senior management and the group compliance and ethics officer provide assurance to the committee in respect of their delegated areas of responsibility through the annual legal assurance process. In addition, high risk compliance areas are included in the group's internal audit plan with reviews conducted as the third line of defence to ensure compliance in the group.

Mr Price Money, the group's credit and insurance business, is highly regulated. In order to manage this, there is a dedicated compliance officer who operates within the division, reporting to and aligning with the group compliance function. Guardrisk as the underwriters of the insurance business provides an element of assurance by conducting reviews of the group's processes and procedures to ensure compliance.

Implementation of compliance measures and controls is managed within other trading divisions and Centres of Excellence as part of existing roles as appropriate.

The group's regulatory universe is reviewed annually and updated by the group compliance and ethics 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 Social, Ethics, Transformation and Sustainability (SETS) Committee regarding compliance matters relevant to the SETS areas of oversight. Senior management and the group compliance and ethics officer provide assurance to the committee in respect of their delegated areas of responsibility through the annual legal assurance process.

### Data protection

As the custodian of valuable commercial and personal data, the group has continued its focus on data protection during this reporting period to mature data protection compliance with the South African Protection of Personal Information Act (POPIA). This included engaging KPMG to conduct a data protection control review. The implementation of KPMG's recommendations, which largely relate to converting existing practices and processes into written policy documents, will be managed by the group compliance as part of the continuation of the data protection project. Due to the inherent risk of human error in data breaches, training and awareness will continue across the business, both in the store and head office environments. Data protection will remain a high compliance priority for the medium term, and will incorporate compliance obligations in respect of the recently promulgated Cybercrimes Act. During the reporting period, one data protection breach matter was referred to the information regulator to which the group responded. At the time of writing there has been no further correspondence from the regulator on this matter and it is considered closed. There have been no other material data protection breaches or complaints.

### Tax and labour

As previously disclosed, the South African Revenue Service (SARS) issued assessments disallowing certain deductions that were claimed by the group in the 2015, 2016 and 2017 years of assessment. SARS has subsequently disallowed the same deduction in the 2018, 2019 and 2020 years of assessment, and has included certain receipts in taxable income for the same years. All assessments have been disputed by the group and are currently in varying stages of the dispute resolution process.

There are no material labour matters to report for the reporting period. The group maintains its position that it complies with the sectoral determination rates of pay and will defend these matters should they arise.

### No material non-compliance

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

#### KEY COMPLIANCE FOCUS AREAS | FY2023

- Formalised and rolled out training on data protection to associates and as part of new associate induction
- Monitored and provided guidance on data protection compliance in business activities specifically regarding high-risk obligations
- Continued monitoring of financial services legislation such as the National Credit Act, the Financial Advisory and Intermediary Services Act and the Financial Intelligence Centre Act (FICA)
- Compliance oversight of acquired businesses particularly regarding data protection compliance
- Understanding the impact of the FICA amendments on the group by engaging in discussions with industry bodies, retailers and the regulator

#### FUTURE COMPLIANCE FOCUS AREAS

- Implement recommendations identified during the KPMG data protection review
- Continual monitoring of financial services legislation with a focus on FICA due to the inclusion of credit providers as accountable institutions with ongoing engagement with industry bodies, retailers and the regulator
- Participate in debtor management system upgrade project for Mr Price Money to ensure compliance requirements and obligations are incorporated into the system and personal information is appropriately protected in the transition
- Compliance maturity review to be conducted by KPMG
- Complete the review of the group compliance policy and framework following and taking into account the outcomes/recommendations of the compliance maturity review

