

# AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

## PICK N PAY STORES LIMITED GROUP

### INTRODUCTION

The Group operates in the fast-moving consumer goods industry on the African continent, primarily in South Africa, and recognises that it will be exposed to certain risks in order to achieve sustainable growth. The focus of the Group's risk management is to ensure that an appropriate balance between risk and reward is maintained while protecting all stakeholders against avoidable risks and mitigating the impact of unavoidable risks.

The Board of directors (the Board) is responsible for Group-wide risk governance by ensuring that adequate systems are in place to identify, evaluate and manage key business risks. The Board is assisted in this regard by the audit, risk and compliance committee, whose responsibility it is to develop, communicate and monitor the risk management process across all divisions in the Group.

The Board retains the overall responsibility to review and approve the annual financial statements for the Group and the Company.

### NOVEL CORONAVIRUS PANDEMIC (COVID-19) AND ITS IMPACT ON THE ACTIVITIES OF THE COMMITTEE

The Pick n Pay Group is operating in the unprecedented circumstances created by the global COVID-19 pandemic, with South Africa operating under a National State of Disaster and subject to an extended lockdown. Countries in the rest of Africa, in which the Group operates, implemented similar measures in an attempt to slow down the spread of the pandemic.

As an essential service provider, the Group has embraced its responsibility to support consumers with vital access to essential consumer goods during the lockdown, notwithstanding considerably constrained operating circumstances.

The COVID-19 pandemic and extended lockdown measures continues to have a significant impact on the economies in which the Group operates in. In response to this, and as informed by the committee, the Group has expanded its group risk strategy and framework regarding crisis management to specifically address the COVID-19 pandemic. Internal controls impacted by the pandemic continue to be assessed, monitored and amended where relevant, including controls which address the following risks:

- Health, safety and human resources
- Liquidity and going concern
- Governance and regulatory
- Group strategy and economic implications
- Operational and technological
- Financial reporting
- Communication

In addition, business continuity and disaster recovery plans continue to be assessed and, where necessary, amended.

The Board concluded that the impact of the COVID-19 pandemic was a non-adjusting subsequent event, as the first case in South Africa was confirmed after the 2020 financial year-end. The COVID-19 pandemic therefore did not affect the economic assumptions and estimates made at 1 March 2020 for financial measurement purposes. Refer to note 31 of the audited Group annual financial statements for further information. The guidance and amendments to regulations published by the JSE, IFRS and SAICA regarding the Group's reporting obligations continue to be closely monitored.

The practical implications of the COVID-19 lockdown resulted in logistical delays in the financial statements close process and the audit process of the 2020 financial result. Following consultation with the JSE and EY, the committee consented to management's request that the Group's result be released with a review opinion, as opposed to an audit opinion, to ensure that the Group's results were released timeously to shareholders. The reviewed results were released on 12 May 2020, followed with the approval of the audited financial result on 19 June 2020.

The committee will continue to oversee management's efforts to ensure the on-going integrity of the Group's risk and control environment in these unprecedented times of the COVID-19 pandemic.

## Audit, risk and compliance committee report (continued)

### COMPOSITION AND ACTIVITIES OF THE COMMITTEE

A standing statutory committee, it is chaired by an independent non-executive director and comprises only independent non-executive directors. In accordance with the requirements of the Companies Act, members of the committee are appointed annually by the Board for the ensuing financial period and are elected by shareholders at the annual general meeting. Fees paid to committee members are disclosed in the annual Corporate Governance Report available on the Group's website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za).

The committee meets formally twice a year with the Chairman, the Chief Executive Officer, the Chief Finance Officer, the head of the internal audit function and the external auditors in attendance. The committee has the right to invite other Board members, executives and external advisors to attend any meeting. In addition, the committee chairman meets with executives, and the internal and external auditors whenever necessary. The internal and external auditors have unfettered access to the committee and its members throughout the year. Formal minutes of meetings are made available to all members of the committee and are available on request to all members of the Board. The effectiveness of the committee is assessed as part of the annual Board and committee self-evaluation process.

### Committee members and attendance at meetings held during the 2020 financial period

MEMBERS	QUALIFICATIONS AND EXPERIENCE	ATTENDANCE
<b>Jeff van Rooyen (Chairman)</b>	A chartered accountant with extensive experience in both the private and public sectors, Jeff is chairman of the committee	2/2
<b>Hugh Herman</b>	An attorney and well-respected businessman, Hugh is honorary life president of the Investec Group	2/2
<b>David Friedland</b>	A chartered accountant with extensive expertise in auditing, risk and compliance, David had a long career as audit engagement partner and lead partner with major audit companies	2/2
<b>Audrey Mothupi</b>	An Honours graduate with wide business experience in strategy, marketing and banking, Audrey is the CEO of the SystemicLogic Group	2/2

Full details of the members' qualifications and experience are set out in the CVs section of the annual Corporate Governance Report on the Group's website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za).

### RESPONSIBILITIES AND ACTIVITIES PERFORMED

The committee is authorised by the Board to investigate any activity within its terms of reference. The committee has the right to:

- Seek any information that it requires from any employee or director
- Demand unrestricted access to records and information
- Liaise directly with the Group internal audit services and the external auditors
- Obtain outside legal or other professional advice
- Have access to the resources it needs to fulfil its responsibilities
- Set and maintain an appropriate mandate for subsidiary company audit committees

Full details of the role of the committee are set out in the annual Corporate Governance Report, available on the Group's website at [www.picknpayinvestor.co.za](http://www.picknpayinvestor.co.za).

The Group manages its retail operations on a 52-week trading calendar, where the reporting period ends on a Sunday. To ensure calendar alignment, a 53rd week of trade is required approximately every six years and, as a result, a 53rd week of trading was included in the prior period.

To provide useful and transparent comparative information, a 52-week result for the prior year has been presented for comparison against the current year 52-week result. The prior period 52-week financial information constitutes pro forma information as per the JSE Listings Requirements. Refer to the Appendices for further information.

## Audit, risk and compliance committee report (continued)

### Integrated and financial reporting and finance function

RESPONSIBILITIES	ACTIVITIES PERFORMED AND AREAS OF FOCUS
<ul style="list-style-type: none"> <li>Providing independent oversight and assessment of the effectiveness of the Group's assurance functions and services, with particular focus on combined assurance arrangements, including internal audit, external assurance service providers and the finance function</li> <li>Providing independent oversight and assessment of the integrity of the annual financial statements and other external reports issued by the Group</li> <li>Providing independent oversight and assessment of the management of financial and other risks that affect the integrity of external reports issued by the Group</li> <li>Ensuring that the necessary internal controls and checks and balances are in place</li> <li>Establishing that management are enforcing use of the controls</li> <li>Overseeing any tender process adopted to establish whether new external auditors should be appointed</li> <li>Acting as a liaison between the external auditors and the Board</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed and recommended to the Board for approval the annual financial statements, interim results, preliminary results announcement and Integrated Annual Report;</li> <li>Ensured and recommended to the Board that financial and integrated reporting was reliable and was in conformity with International Financial Reporting Standards (IFRS); the Companies Act, the JSE Listings Requirements and the King IV Code of Conduct;</li> <li>Reviewed and approved the appropriateness of accounting policies, disclosure policies and the effectiveness of internal financial controls;</li> <li>Ensured that the Group has established appropriate financial reporting procedures and that those procedures are operating, including considering the Group structure, to ensure that the committee has access to all the financial information of each company in the Group, to allow effective preparation of the report on the financial position of the Group;</li> <li>Continued focus on ensuring that the Group's financial systems, processes and controls are operating effectively and are responsive to changes in the environment and industry;</li> <li>Reviewed the sustainability disclosure in the Integrated Annual Report and ensured that it was consistent with financial information reported;</li> <li>Considered the expertise, experience and resources of the Group's finance function;</li> <li>Reviewed the Group's integrated reporting function and progress, considering factors and risks that could impact on the integrity of the Integrated Annual Report;</li> <li>Reviewed and confirmed that the listed company has an independent sponsor at all times during the financial period;</li> <li>Ensured that the appointment of the external auditor was included as a resolution for shareholders to vote on in the Notice of the 2020 annual general meeting;</li> <li>Reviewed and considered representations by management on the going concern statement for the Group and recommended the adoption of the going concern concept to the Board, including any potential impact of the COVID-19 pandemic;</li> <li>Reviewed and considered representations by management on the conclusion that the COVID-19 pandemic was a non-adjusting subsequent event;</li> <li>Ensured that prior period pro forma financial information, prepared in accordance with IFRS and the JSE Listings Requirements, was provided to stakeholders on an equivalent 52-week basis, to assist stakeholders with their assessment of the Group's comparable performance;</li> <li>Reviewed and considered the adoption of new accounting standards that impacted on financial reporting, including the adoption of IFRS 16 <i>Leases</i>; and</li> <li>Monitored the political and economic situation in Zimbabwe and the accounting treatment of the Group's investment in its associate, TM Supermarkets (Pvt) Ltd in a hyperinflationary environment, including the application of IAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>.</li> </ul>

### Internal audit

The internal audit function is independent of business operations and provides assurance on the adequacy and effectiveness of internal controls. In developing its annual combined assurance plan, the internal audit function follows a risk-based methodology to identify material business risks, which are then confirmed and addressed by the relevant individual divisional managers.

RESPONSIBILITIES	ACTIVITIES PERFORMED AND AREAS OF FOCUS
<ul style="list-style-type: none"> <li>Reviewing and approving the internal audit charter and audit plans</li> <li>Evaluating the independence, effectiveness and performance of the internal audit function and compliance with its mandate</li> <li>Reviewing the Group's system of internal control, including financial controls, ensuring that management is adhering to and continually improving these controls</li> <li>Reviewing significant issues raised by the internal audit process</li> <li>Reviewing policies and procedures for preventing and detecting fraud</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed the internal audit coverage plan;</li> <li>Considered and confirmed the composition, experience, resources, independence and skills of the internal audit function;</li> <li>Considered and confirmed that the head of the internal audit function has the appropriate expertise and experience for the position;</li> <li>Ensured continued progress in integration with the combined assurance model;</li> <li>Reviewed the effectiveness of internal financial controls; and</li> <li>Met separately with the internal auditors to confirm that they received the full co-operation of management.</li> </ul>

## Audit, risk and compliance committee report (continued)

### External audit

Following a tender process, Ernst & Young Inc. (EY) was appointed as external auditor to the Group in July 2015, bringing their tenure to five years.

The committee annually considers whether a tender process should be adopted to establish whether new external auditors should be appointed. The Independent Regulatory Board for Auditors' (IRBA) rule on mandatory audit firm rotation was taken into consideration. In terms of the rule, the external auditor firm would be rotated in the financial period ended 2026. The committee concluded that a new tender process was not required in the 2021 financial period.

In terms of section 92 of the Companies Act, no. 71 of 2008 as amended (the Act), the designated auditor of a company is required to be rotated after serving as a company's auditor for five consecutive financial years. The 2020 financial year marks the end of the five-year tenure of Malcolm Rapson as designated audit partner. Tina Rookledge will be appointed as the new designated audit partner for the 2021 financial period. Both audit partners have been assessed to have the necessary competence, ability and independence required for this position.

The committee confirmed its satisfaction with the performance and level of service rendered by EY during the 2020 financial period.

RESPONSIBILITIES	ACTIVITIES PERFORMED AND AREAS OF FOCUS
<ul style="list-style-type: none"> <li>Acting as a liaison between the external auditors and the Board</li> <li>Nominating the external auditor for appointment by shareholders</li> <li>Determining annually the scope of audit and non-audit services that the external auditors may provide to the Group</li> <li>Approving the remuneration of the external auditors and assessing their performance</li> <li>Assessing annually the independence of the external auditors</li> <li>Ensuring a process is in place for the committee to be informed of any reportable irregularities identified by the external auditor</li> </ul>	<ul style="list-style-type: none"> <li>Ensured the appointment as external auditor a registered auditor, who, in the opinion of the committee, was independent of the Group and recommended approval for the re-appointment of EY as external auditors;</li> <li>Ensured that the re-appointment of the external auditor complied with relevant legislation;</li> <li>Assessed the competence of the designated audit partner;</li> <li>Ensured that the Group's designated audit partner would be rotated during the 2021 financial period, in compliance with section 92 of the Companies Act;</li> <li>Reviewed IRBA's rule on the requirements of mandatory audit firm rotation;</li> <li>Determined the fees to be paid to the external auditor, as well as the terms of engagement;</li> <li>Pre-approved non-audit services provided by the external auditors;</li> <li>Considered and confirmed the independence of the external auditors, taking into account all non-audit services performed and circumstances known to the committee;</li> <li>Reviewed the external audit coverage plan to ensure adequate coverage of critical risk areas and dealt with questions arising from audit activities;</li> <li>Met with management, independently of the auditors, to discuss issues relevant to the audit and for purposes of evaluating the quality and effectiveness of the external audit function;</li> <li>Evaluated the performance, and reviewed the reports, of the external auditors and ensured that the reporting was reliable, transparent and a fair representation for the use by stakeholders;</li> <li>Received and appropriately dealt with any queries relating to the accounting practices of the Group, the content of its financial statements and the internal financial controls of the Group or to any related matter;</li> <li>Made submissions to the Board on any matter concerning the Group's accounting policies, financial controls, records and reporting; and</li> <li>Met separately with both the external and internal auditors to confirm that full co-operation was received by them from management.</li> </ul>

## Audit, risk and compliance committee report (continued)

### Risk management

The Chief Finance Officer serves as the Chief Risk Officer for the Group and attends all audit, risk and compliance committee meetings by invitation. The day-to-day responsibility for identifying, evaluating and managing risk remains the responsibility of senior management, who are supported by the internal audit function. Currently, the combined assurance plan serves as the source for the Group's top-down risk management programme. These risks are typically strategic and operational, and are quantified by the finance function, where relevant.

RESPONSIBILITIES	ACTIVITIES PERFORMED AND AREAS OF FOCUS
<ul style="list-style-type: none"> <li>Ensuring that the Group has adequate processes in place to identify, monitor and manage all significant business and financial risk areas</li> <li>Assisting management to identify risk areas, and evaluating management in the handling of identified risks</li> <li>Ensuring that the Group's assets are secure</li> <li>Ensuring that the Group's information systems are adequate, secure and function effectively</li> <li>Ensuring that the accounting system and controls are adequate and function effectively</li> <li>Ensuring that the effectiveness of the internal control measures is continually evaluated</li> <li>Ensuring that systems exist that adequately provide for the Group's conformance with all laws, regulations and codes</li> </ul>	<ul style="list-style-type: none"> <li>Discharged all audit, risk and compliance committee responsibilities of all the subsidiary companies in the Group;</li> <li>Together with internal auditors, external auditors and management, reviewed the findings of the financial review committees of the material operating divisions in the Group;</li> <li>Ensured that management's processes and procedures were adequate to identify, assess, manage and monitor enterprise-wide risks;</li> <li>Reviewed operational risks, in particular how they were managed;</li> <li>Met with management to review their progress on identifying and addressing material risk areas within the business;</li> <li>The Chairman met regularly with key management to keep abreast of emerging issues which, during the 2020 financial period, included: <ul style="list-style-type: none"> <li>The adoption of new accounting standards, including IFRS 16 <i>Leases</i></li> <li>Continued monitoring of possible corporate governance failures and their implications on risk management and director responsibilities in oversight of management</li> <li>The unfolding political and economic events in Zimbabwe and in other countries in Africa in which the Group is operating or considering operating</li> </ul> </li> <li>Reviewed both global and local governance failures, to ensure that the Group's risk management remained robust and relevant.</li> </ul>

## Audit, risk and compliance committee report (continued)

### POLICY ON NON-AUDIT SERVICES

All non-audit services provided by the Group's external auditors are required to be pre-approved by the committee. The nature and extent of non-audit services provided by the external auditors has been reviewed to ensure that the fees for such services do not become so significant as to call into question their independence. During the period under review, EY received R0.4 million (2019: R0.4 million) equating to 3.6% (2019: 4.3%) of the total audit remuneration relating to agreed-upon procedures. All non-audit services undertaken during the 2020 financial period were approved in accordance with this policy.

### EXPERTISE AND EXPERIENCE OF CHIEF FINANCE OFFICER AND FINANCE FUNCTION

The committee, together with the lead external audit partner, has considered and confirmed the composition, experience, resources and skills of the finance function. The committee is satisfied that Lerena Olivier has the appropriate expertise and experience for the position of Chief Finance Officer of the Group. In addition, the committee is satisfied that the composition, experience and skills of the finance function meet the Group's requirements.

### LEGAL REQUIREMENTS

The committee has complied with all applicable legal, regulatory and other responsibilities for the 2020 financial period.

### EFFECTIVENESS OF THE DESIGN AND IMPLEMENTATION OF INTERNAL FINANCIAL CONTROLS

The committee has examined the effectiveness of internal financial controls, to assess if there are any significant weaknesses in the design, implementation or execution of internal financial controls that could result in material financial loss, fraud, corruption or error. Through this process no material matter has come to the attention of the audit, risk and compliance committee or the Board that has caused the directors to believe that the Group's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements. The committee has concluded that the current design of internal financial controls is effective but will continue to be watchful.

### THE ARRANGEMENTS IN PLACE FOR COMBINED ASSURANCE AND THE COMMITTEE'S VIEW ON ITS EFFECTIVENESS

The committee ensured that the combined assurance model addressed all significant risks facing the Group and monitored the relationship between external and internal assurance providers and the Group. The committee concluded that the arrangements in place for combined assurance were effective.

### ANNUAL FINANCIAL STATEMENTS AND GOING CONCERN

Following review of the consolidated Group and separate Company annual financial statements for the financial period ended 1 March 2020, the committee is of the opinion that, in all material respects, the financial statements comply with International Financial Reporting Standards and the Companies Act and that they fairly present the financial position of the Group and Company for the 2020 financial period and the results of the operations and cash flows for the period then ended.

The committee reviewed and considered representations by management on the going concern statement for the Group and recommended the adoption of the going concern concept to the Board, following specific consideration of the impact of the COVID-19 pandemic.

In compliance with the requirements of the King IV Report™, an Integrated Annual Report will be compiled for 2020 in addition to these annual financial statements.

### APPROVAL OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT

The committee confirms that it functioned in accordance with its charter for the 2020 financial period and that its report to shareholders was approved by the Board.

**Jeff van Rooyen**  
Chairman: audit, risk and compliance committee

19 June 2020