

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT



JEFF VAN ROOYEN | CHAIRMAN OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE

PICK N PAY STORES LIMITED GROUP

The Group operates in the fast-moving consumer goods industry on the African continent 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 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.

COMMITTEE MEMBERSHIP AND MEETING ATTENDANCE

MEMBERSHIP

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 on page 56.

MEETINGS

The committee meets formally twice a year with the Chairman, the Chief Executive Officer, the Chief Financial 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. Formal minutes are kept and 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.

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.

ATTENDANCE AT MEETINGS HELD DURING THE 2019 FINANCIAL PERIOD

MEMBERS	QUALIFICATIONS AND EXPERIENCE	ATTENDANCE
Jeff van Rooyen (Chairman)	A chartered accountant with extensive experience in both the private and public sectors, Jeff is Chairman of the committee	2/2
Hugh Herman	An attorney and well-respected businessman, Hugh is honorary life president of the Investec Group	2/2
David Friedland	A chartered accountant, who enjoyed a long career as audit engagement partner and lead partner with major audit clients, David is well placed to assist the committee with his auditing experience	2/2
Audrey Mothupi	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 from page 12.

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

IMPORTANT TO NOTE

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.

The Group added a 53rd week of trading to the financial period under review. Accordingly, the results for the 2019 financial period are for a 53-week period, ended 3 March 2019. This compares to a 52-week period in the previous financial period.

In order to provide useful and transparent information, a 52-week comparable result has been prepared for illustrative purposes. Refer to the review of operations on pages 16 to 22 of the 2019 AFS. The 52-week financial information constitutes pro forma information, as per the JSE Listings Requirements, and is the responsibility of the Board of directors. The Group's external auditor, in its capacity as reporting accountant, has issued a report on the 52-week information. The report is available for inspection at the Group's registered office.

INTEGRATED AND FINANCIAL REPORTING AND FINANCE FUNCTION

Responsibilities

- 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
- Providing independent oversight and assessment of the integrity of the annual financial statements and other external reports issued by the Group
- Providing independent oversight and assessment of the management of financial and other risks that affect the integrity of external reports issued by the Group
- Ensuring that the necessary internal controls and checks and balances are in place
- Establishing that management are enforcing use of the controls
- Overseeing any tender process adopted to establish whether new external auditors should be appointed
- Acting as a liaison between the external auditors and the Board

Activities performed and areas of focus

- Reviewed and recommended to the Board for approval the annual financial statements, interim results, preliminary results announcement, summarised financial statements and Integrated Annual Report
- Reviewed the sustainability disclosure in the Integrated Annual Report and ensured that it was consistent with financial information reported
- Reviewed and adopted the accounting processes required to reflect the inclusion of week 53 in the 2019 financial period
- Ensured that additional pro forma financial information, prepared in accordance with IFRS and the JSE Listing Requirements, was provided to stakeholders on an equivalent 52-week basis, to assist stakeholders with their assessment of the Group's comparable performance
- Ensured and recommended to the Board that financial and integrated reporting was reliable and was in conformity with IFRS, the Companies Act, the JSE Listing Requirements and King IV
- Considered the expertise, experience and resources of the Group's finance function
- Reviewed and approved the appropriateness of accounting policies, restatements, disclosure policies and the effectiveness of internal financial controls
- Reviewed the Group's integrated reporting function and progress, considering factors and risks that could impact on the integrity of the Integrated Annual Report
- Reviewed and considered the approach planned by management in the adoption of new accounting standards that have an impact on future reporting, namely: IFRS 16 relating to leases
- Continued focus on ensuring that the Group's financial systems, processes and controls are operating effectively, meet the requirements of the Group and are responsive to changes in the environment and industry
- 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
- Monitored the political and economic situation in Zimbabwe and the accounting treatment of the Group's investment in its associate, TM Supermarkets Pvt Ltd

AUDIT, RISK AND COMPLIANCE COMMITTEE REPORT (continued)

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

- Reviewing and approving the internal audit charter and audit plans
- Evaluating the independence, effectiveness and performance of the internal audit function and compliance with its mandate
- Reviewing the Group's system of internal control, including financial controls, ensuring that management is adhering to and continually improving these controls
- Reviewing significant issues raised by the internal audit process
- Reviewing policies and procedures for preventing and detecting fraud

Activities performed and areas of focus

- Reviewed the internal audit coverage plan
- Ensured continued progress in integration with the combined assurance model
- Considered and confirmed the composition, experience, resources, independence and skills of the internal audit function
- Reviewed the effectiveness of internal financial controls
- Considered and confirmed that the head of the internal audit function has the appropriate expertise and experience for the position
- Met separately with the internal auditors to confirm that they received the full co-operation of management

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 four 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, it would be mandatory

to rotate the external auditor firm in the financial period ended 2027. The committee concluded that a new tender process was not required in the 2020 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 Group's designated audit partner will be rotated during the 2021 financial period.

The committee confirmed its satisfaction with the performance and level of service rendered by EY during the 2019 financial period.

Responsibilities

- Acting as a liaison between the external auditors and the Board
- Nominating the external auditor for appointment by shareholders
- Determining annually the scope of audit and non-audit services that the external auditors may provide to the Group
- Approving the remuneration of the external auditors and assess their performance
- Assessing annually the independence of the external auditors
- Ensuring that a process is in place for the committee to be informed of any reportable irregularities identified by the external auditor

Activities performed and areas of focus

- Ensured that the appointment as external auditor was 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
- Reviewed IRBA's rule on the requirements of mandatory audit firm rotation
- Determined the fees to be paid to the external auditor, as well as the terms of engagement
- Assessed the competence of the designated audit partner.
- Ensured that the Group's designated audit partner would be rotated during the 2021 financial year, in compliance with section 92 of the Act

- Ensured that the re-appointment of the external auditor complied with relevant legislation
- Considered and confirmed the independence of the external auditors, taking into account all non-audit services performed and circumstances known to the committee
- 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
- Met separately with both the external and internal auditors to confirm that full co-operation was received by them from management
- Reviewed the external audit coverage plan to ensure adequate coverage of critical risk areas and dealt with questions arising from audit activities
- Pre-approved non-audit services provided by the Group's external auditors
- Received and appropriately dealt with any complaints relating to the accounting practices of the Group, the content or auditing of its financial statements, the internal financial controls of the Group or to any related matter
- 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
- Made submissions to the Board on any matter concerning the Group's accounting policies, financial controls, records and reporting

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

- Ensuring that the Group has adequate processes in place to identify, monitor and manage all significant business and financial risk areas
- Assisting management to identify risk areas, and evaluates management in the handling of identified risks
- Ensuring that the Group's assets are secure
- Ensuring that the accounting system and controls are adequate and function effectively
- Ensuring that the effectiveness of the internal control measures are continually evaluated
- Ensuring that systems exist that adequately provide for the Group's conformance with all laws, regulations and codes

Activities performed and areas of focus

- The Chairman met regularly with key management to keep abreast of emerging issues which, during the 2019 financial period, included:
 - The inclusion of week 53 in the 2019 financial period
 - Continued monitoring of corporate governance failures and their implications on risk management and director responsibilities in oversight of management
 - The unfolding political and economic events in Zimbabwe and in other countries in Africa in which the Group is operating or considering operating
 - The impact of the imposition of a statutory minimum wage
- Together with the external auditors and management, reviewed the findings of the financial review committees of the material operating divisions in the Group
- Met with management to review their progress on identifying and addressing material risk areas within the business
- Discharged all audit, risk and compliance committee responsibilities of all the subsidiary companies in the Group
- Reviewed both global and local governance failures, to ensure that the Group's risk management remained robust and relevant
- Ensured that management's processes and procedures were adequate to identify, assess, manage and monitor enterprise-wide risks
- Pre-approved non-audit services provided by the Group's external auditors
- Reviewed operational risks, in particular how they were managed

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 (2018: R0.8 million) equating to 4.3% (2018: 8.8%) of the total audit remuneration. These services related to agreed-upon procedures. All non-audit services undertaken during the 2019 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 Bakar Jakoet 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 2019 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 3 March 2019, the committee is of the opinion that, in all material respects, the financial statements comply with IFRS and the Companies Act and that they fairly present the financial position of the Group and Company for the 2019 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.

In compliance with the requirements of King IV, an Integrated Annual Report will be compiled for 2019 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 2019 financial period and that its report to shareholders was approved by the Board.

Jeff van Rooyen

Chairman: Audit, risk and compliance committee
25 April 2019