

# AUDIT AND RISK COMMITTEE REPORT

TO THE SHAREHOLDERS OF REMGRO LIMITED

This report by the Audit and Risk Committee (the committee), as appointed by the shareholders in respect of the year under review, is prepared in accordance with the principles of the King IV Report on Corporate Governance for South Africa (2016) (King IV) and the requirements of the Companies Act (No. 71 of 2008), as amended (Companies Act), and describes how the committee has discharged its statutory duties in terms of the Companies Act and its additional duties assigned to it by the Board in respect of the financial year ended 30 June 2019.

## COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

The committee comprises four independent, non-executive directors (as set out in the table below) and is chaired by Ms S E N De Bruyn. All the committee members are suitably skilled and experienced. In terms of the committee's mandate, at least four meetings should be held annually.

### COMPOSITION OF THE COMMITTEE

Committee member*	Number of meetings held	Number of meetings attended
S E N De Bruyn (Chairman)	4	4
N P Mageza	4	4
P J Moleketi	4	4
F Robertson	4	4

\* Abridged curriculum vitae of all the directors of the Company are set out on pages 18 and 19 of the Integrated Annual Report.

The Chief Executive Officer (CEO), Chief Financial Officer (CFO), head of internal audit, other members of senior management and representatives of the external auditors of the Company attend the committee meetings by invitation. Committee agendas provide for confidential meetings between committee members and the internal and external auditors, as well as management.

## ROLE AND RESPONSIBILITIES

The committee's role and responsibilities include its statutory duties as per the Companies Act, as well as the responsibilities assigned to it by the Board. The responsibilities of the Audit and Risk Committee are codified in a formal terms of reference, which is reviewed at least annually and which is available on Remgro's website. During the year under review, the Board reviewed the terms of reference of the Audit and Risk Committee, in light of the principles and recommended practices of King IV.

The committee is satisfied that it has fulfilled all of its duties during the financial year under review, as further detailed below.

The committee has also satisfied itself that there are effective boards and audit committees (where applicable) functioning at Remgro's significant operating subsidiaries (RCL Foods Limited (RCL Foods), Distell Group Holdings Limited (Distell), Siqalo Foods Proprietary Limited (Siqalo Foods) and Wispeco Holdings Proprietary Limited (Wispeco)), associates and joint ventures, whose minutes of meetings held are also included in the committee's agenda.

More information about the functioning of the committee and the matters dealt with in this report can be found in the Corporate Governance Report and Risk and Opportunities Management Report.

## STATUTORY DUTIES

In the conduct of its duties, the committee has performed the following statutory duties:

- Nominated PricewaterhouseCoopers Inc. (PwC) (with Mr Anton Wentzel as designated partner), who, in the opinion of the committee, is independent of the Company, to the shareholders for appointment as the external auditor for the financial year ended 30 June 2019
- Determined the fees to be paid to the external auditor and their terms of engagement
- Ensured that the appointment of the external auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors
- Determined the nature and extent of any non-audit services that the external auditor may provide to the Company and its wholly owned subsidiaries administered by Remgro Management Services Limited (RMS)
- Pre-approved any proposed agreement with the external auditor for the provision of non-audit services to the Company and its wholly owned subsidiaries administered by RMS

## EXTERNAL AUDIT

The committee is satisfied that the Company's external auditor, PwC, is independent of the Company and is therefore able to conduct its audit functions without any influence from the Company. The designated external audit partner rotates every five years.

PwC has been the auditor of the Company for 51 years. The business of the Company was previously transacted through Rembrandt Group Limited of which, based on available statutory records, PwC and its predecessor firms have been the external auditor for 71 years. The committee is satisfied with PwC's independence from the Company, notwithstanding its tenure as external auditor.

PwC has confirmed its compliance with the ethical requirements regarding independence and is considered independent with respect to the Group as required by the codes endorsed and administered by the Independent Regulatory Board for Auditors, the South African Institute of Chartered Accountants and the International Federation of Accountants. As required by section 3.84(g)(iii) of the JSE Listings Requirements, the committee obtained the information listed in paragraph 22.15(h) of the JSE Listings Requirements and satisfied itself that the external auditor and audit partner, Mr Anton Wentzel, have the necessary accreditation and are suitable for re-appointment. The committee nominated, for approval at the Annual General Meeting on 28 November 2019, PwC as external auditor for the 2020 financial year. The committee is also satisfied that the designated partner is not on the JSE's list of disqualified individuals.

In terms of the requirements of the Independent Regulatory Board for Auditors, the Company is obliged to rotate its external auditor for the 2024 financial year. The committee has already taken steps to ensure that audit firm rotation is implemented in time.

A formal policy governs the process whereby the external auditor of the Company is considered for non-audit services. In terms of the policy, the committee is responsible for determining the nature and extent of any non-audit services that the external auditor may provide and to pre-approve any proposed contract with the external auditor for the provision of non-audit services. For the year under review, non-audit services related mainly to normal tax services. The extent of these services was within the committee's pre-approved amount.

## INTERNAL FINANCIAL CONTROL AND ACCOUNTING SYSTEMS

The committee is responsible for assessing the systems of internal financial controls and accounting systems of the Company and its wholly owned subsidiaries administered by RMS. In this regard the committee has evaluated reports on the effectiveness of the systems of internal financial controls conducted by the internal audit function, considered information provided by management and held discussions with the external auditor on the results of their audit. The committee is of the opinion that the systems of internal financial controls are effective and form a basis for the preparation of reliable financial statements. In support of the aforementioned, the committee also received reports from the internal audit function regarding the effectiveness of the combined assurance process and anti-corruption, fraud prevention and detection measures in place.

The Remgro executives serving on the boards of investee companies (RCL Foods, Distell, Siqualo Foods, Wispeco and associates and joint ventures) are responsible for executing the Company's influence to ensure that effective internal controls are implemented and complied with.

## EXPERTISE AND EXPERIENCE OF THE CFO AND FINANCE FUNCTION

The committee has considered and satisfied itself of the appropriateness of the expertise and experience of the CFO, Mr Neville Williams, whose *curriculum vitae* appears on page 18 of the Integrated Annual Report.

The committee has furthermore considered and satisfied itself of the appropriateness of the expertise and adequacy of resources of the Company's finance function, and the experience of the senior members of management responsible for the financial function.

## FINANCIAL STATEMENTS AND GOING CONCERN

The committee has reviewed the standalone and consolidated financial statements of the Company, and is satisfied that they comply with International Financial Reporting Standards (IFRS) and the Companies Act, and that the accounting policies used are appropriate. In particular, the committee considered the following significant issues, identified by the management team and the external auditors, and is satisfied that these issues

have been appropriately accounted for in the Annual Financial Statements:

- **Accuracy of accounting for the acquisition of Siqualo Foods**

On 2 July 2018 Unilever South Africa Holdings Proprietary Limited (Unilever) acquired Remgro's 25.75% shareholding in Unilever in exchange for Unilever's Spreads business in Southern Africa, as well as a cash consideration of R4 900 million, representing a total transaction value of R11 900 million. This transaction valued the Unilever Spreads business at R7 000 million. The Unilever Spreads business was transferred to Siqualo Foods, which became a wholly owned subsidiary of Remgro on 2 July 2018. The committee considered the key judgements made by management in accounting for this business combination, as well as the fair value of the underlying assets acquired and liabilities assumed. The committee is further satisfied with the accounting treatment thereof as detailed in note 15 to the Annual Financial Statements that is published on the Company's website at [www.remgro.com](http://www.remgro.com).

- **Accounting for equity accounted investments**

The Company holds significant investments which are equity accounted for in terms of *IAS 28: Investments in Associates and Joint Ventures*. Some of the equity accounted investments have year-ends which are non-coterminous with that of the Company, the most significant investment in this regard being Mediclinic International plc (Mediclinic). These investments are equity accounted from results for a financial period ended within three months from the Group's financial year-end. Significant transactions that occur after the equity accounted investments' period-end, but before the Company's year-end, are accounted for in Remgro's consolidated financial statements. Significant adjustments for the current year related to dividends received from equity accounted investments, the additional investment in Community Investment Ventures Holdings Proprietary Limited (CIVH) and the conversion of Mediclinic's financial information from its presentation currency (British pound) to the Company's presentation currency as at 30 June 2019. The committee considered these transactions and is satisfied with the accounting treatment thereof. Refer to note 4.1 to the Annual Financial Statements that is published on the Company's website at [www.remgro.com](http://www.remgro.com) for further detail.

- **Valuation of investments and consideration of possible impairments**

The intrinsic net asset value (INAV) is one of the measures used to assess shareholder value created. Investee companies, which represent operating segments, are valued and included in the INAV. The committee considered the methodologies, assumptions and judgements applied by management in determining the intrinsic value of assets and is satisfied that the approach taken was appropriate.

The committee further considered the methodologies, assumptions and judgements applied by management in determining the impairment of assets, whose carrying values exceed its intrinsic values, and is satisfied that the approach taken was appropriate. The most significant assets in this



regard being Remgro's investment in Mediclinic and the goodwill and indefinite life intangible assets that originated from the acquisition of Siquilo Foods in the current year and Distell in the comparative year.



Refer to notes 2, 4.4 and 10.3 to the Annual Financial Statements that is published on the Company's website at [www.remgro.com](http://www.remgro.com) for further detail.

The committee has also reviewed a documented assessment by management of the going concern premise of the Company before recommending to the Board that the Company will be a going concern in the foreseeable future.

## RISK AND OPPORTUNITIES MANAGEMENT

The committee has assigned oversight of the risk and opportunities management function to the Risk, Opportunities, Technology and Information Governance Committee (the ROTIG Committee), which is a subcommittee of the committee. The mandate of the ROTIG Committee includes the maintenance of the Risk Management and Opportunities Policy and plan, establishment of an operational Risk and Opportunities Register, technology and information risk management, legal compliance and occupational health and safety. The ROTIG Committee is chaired by the CFO and the 15 other members are all senior managers of the Company. The chairman of the committee attends the ROTIG Committee meetings as an *ex officio* member to ensure the effective functioning of the ROTIG Committee and that appropriate risk information is shared with the committee.

## INTERNAL AUDIT

The Company's internal audit division is an effective, independent appraisal function and forms an integral part of the Enterprise-wide Risk and Opportunities Management system that provides assurance on the effectiveness of the Company's system of internal control. The committee has appointed Mr Deon Annandale as Remgro's Chief Audit Executive (CAE). The committee is satisfied with the attributes, objectivity and independence of the CAE, and that the CAE has the necessary gravitas and competence. The internal audit division of the Company is staffed by qualified and

experienced personnel and services all of Remgro's wholly owned subsidiaries administered by RMS, as well as Wispeco. In addition, the internal audit division also performs independent, internal audit work for other investee companies such as Dark Fibre Africa Proprietary Limited, RMB Holdings Limited, RMI Holdings Limited, SEACOM Capital Limited and Business Partners Limited.

During the year under review the committee considered and recommended the internal audit charter for approval by the Board. The committee further considered the internal audit quality assurance plan and the performance of the internal audit function, and is satisfied that the internal audit function conforms to a recognised industry code of ethics. Further details on the Group's internal audit functions are provided in the Risk and Opportunities Management Report.

## COMPLIANCE

The committee is responsible for reviewing any major breach of relevant legal and regulatory requirements. The committee is satisfied that there has been no material non-compliance with laws and regulations during the year under review.

The committee is also satisfied that it has complied with all its legal, regulatory and other responsibilities during the year under review.

## RECOMMENDATION TO THE BOARD

The committee has reviewed and considered the Integrated Annual Report, including the comprehensive Annual Financial Statements and Sustainable Development Report published on the Company's website at [www.remgro.com](http://www.remgro.com), and has recommended it for approval by the Board.

**Sonja De Bruyn**

*Chairman of the Audit and Risk Committee*

Stellenbosch  
19 September 2019

