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# AUDIT COMMITTEE REPORT

The Audit Committee (the committee) of the Truworths International board complies with relevant legislation, regulation and governance practices. The responsibilities of the committee are outlined in its written charter, which was reviewed and updated by the board during the 2016 reporting period.

This report of the committee is presented to shareholders in compliance with the requirements of the Companies Act (71 of 2008, as amended) of South Africa.

## ROLE OF THE COMMITTEE

The objectives and functions of the committee are set out in its charter. In summary the committee:

- aims to ensure the maintenance of adequate accounting records and effective financial reporting and internal control systems;
- aims to ensure compliance of published financial reports with relevant legislation, financial reporting standards and good governance;
- aims to ensure Group assets are safeguarded;
- has oversight of fraud, information security and information technology risks in so far as these impact on the financial reporting process;
- confirms the nomination and appointment of the external auditor, ensuring such appointment is legislatively compliant;
- approves the terms of engagement and fees of the external auditor, as recommended by management;
- defines and considers the non-audit services that may be rendered by the external auditor;
- considers the external auditor's findings arising from the annual financial statement audit;
- monitors the functioning and approves the coverage plan of the internal audit department;
- reviews tax compliance and tax risk management programmes and initiatives;
- fulfils the function of audit committee to Group subsidiaries that are public companies, as well as the Group's charitable and other trusts;
- reviews the expertise, resources and experience of the Group's finance function and the expertise and experience of the Chief Financial Officer; and
- reviews and recommends to the board the approval of the Group's Integrated Report, Interim Report, Preliminary Report, annual financial statements and published results announcements.

## STRUCTURE OF THE COMMITTEE

The committee comprises three independent non-executive directors, and the Chairman of the committee is not the Chairman of the board of the company. The following directors served on the committee during the reporting period:

- Mr Michael Thompson (Chairman)
- Mr Rob Dow
- Mr Roddy Sparks

Biographical details of the committee members appear in the Board of Directors Report of the 2017 Integrated Report. Fees paid to the committee members are outlined in note 30.1 of the Group annual financial statements. Having regard for their financial and business qualifications, as well as their extensive work experience in financial accounting, auditing, consulting and corporate business, the members of the committee are regarded as having the relevant financial expertise and experience required of an audit committee member.

The Chairman of the board, Chief Financial Officer, Company Secretary, Internal Audit Manager, Information Systems Audit Manager, Finance Executive, chairman of the Risk Committee (if available) and external auditor also attend meetings of the committee as invitees.

The chairman of the committee periodically meets separately with the external auditor and the Internal Audit Manager without members of executive management being present.

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# AUDIT COMMITTEE REPORT (continued)

## INTERNAL AUDIT

The internal audit function provides assurance to the Truworths International board, via the committee, on the adequacy and effectiveness of the Group's internal control and risk management practices, and the integrity of financial reporting systems. Internal audit also assists management by making recommendations for improvements to the control and risk management environment.

The principle of independence of the internal audit department is upheld and the Internal Audit Manager reports on operational matters to the Chief Executive Officer and on administrative matters to the Chief Financial Officer.

The scope of the internal audit department's work includes:

- reviewing, appraising and reporting on the adequacy and effectiveness of the Group's system of internal control;
- reviewing the processes and systems which are designed to ensure integrity in the Group's reporting of financial and operating information; and
- reviewing the adequacy of the Group's compliance with applicable policies, plans, procedures, laws and regulations.

Specific focus is placed on the system of internal control that ensures that assets and information are protected against loss, theft or misuse, as well as on those controls that ensure key transactional information is of high integrity. Internal audit also provides consultation and other services to management such as due diligence services, forensic audit services, systems auditing services, risk management services, business continuity plan monitoring services and special reviews or audits.

## INTERNAL CONTROLS

The Group aims to maintain a high standard of internal control. The sound control environment in the Group is founded on:

- strong responsibility for controls by executives;
- executive commitment to integrity and ethical values; and
- the skills and competence of executives.

The soundness of the Group's control environment is illustrated through:

- management's hands-on operating style;
- clear communication through employee policies and operating procedures;
- assignment of authority and responsibility to appropriate levels of management; and
- a control consciousness throughout the Group.

The Truworths International board is ultimately responsible for the Group's system of internal control, which is designed to ensure:

- effectiveness and efficiency of operations;
- safeguarding and verification of and accountability for assets;
- detection and minimisation of fraud and losses;
- reliability of financial and operational information and reporting; and
- compliance with applicable laws, regulations, policies and procedures.

The Truworths International board delegates responsibility for the implementation and maintenance of the control framework to management. The committee, together with the Risk Committee and the internal and external auditors, assists the board in monitoring the effectiveness and adequacy of the control environment.

The committee reports that during the period under review:

- internal control procedures were represented by management as having been substantially effective and appropriate;
- no material breach of internal controls and procedures was brought to its attention;
- key risks appeared to be adequately documented and appropriately monitored and reported on by management;
- policies and authority levels were represented by management as having been enforced and adhered to; and
- no material breaches of any laws affecting the Group were brought to its attention.

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# AUDIT COMMITTEE REPORT (continued)

## EXTERNAL AUDIT

The Group's external auditor is Ernst & Young Inc. Fees paid to the auditor (including the Office external auditor) are detailed in note 29.5 of the Group annual financial statements.

The external auditor's plan for the annual audit of the Group's financial statements, which plan incorporates the identification of significant risks and how they are to be addressed during the audit, is presented and approved at a meeting of the committee before the commencement of audit fieldwork.

The external auditor has unrestricted access to the Group's records and management. The external auditor furnishes a written report to the committee on significant findings arising from the annual audit and is able to raise matters of concern directly with the chairman of the committee.

## AUDITOR INDEPENDENCE

The committee is satisfied that the Group's external auditor Ernst & Young Inc. and the designated audit partner are independent of the Group and management, and are therefore able to express an independent opinion on the fair presentation of the Group's annual financial statements.

This conclusion is, *inter alia*, based on the following:

- the Group's policy that prohibits or otherwise restricts the non-audit services that may be provided by the external auditor;
- auditing profession standards that preclude the external auditor's personnel from holding shares in or having other business relationships with the Group;
- the external auditor may not provide services that could be seen as participating in the management of the Group's affairs; and
- the assurance provided by the external auditor that internal governance processes within the audit firm support the claim to independence.

The committee has a policy which limits the provision of non-audit services by the auditor. The auditor is restricted from rendering accounting, company secretarial, internal audit, legal, valuation, financial information system design, actuarial, management, human resource and investment services.

Furthermore, the provision of non-restricted non-audit services by the external auditor is subject to prior approval by the committee by round robin resolution if the fees exceed R100 000 (currently less than 5% of the annual audit fee). Fees for all such non-audit services require appropriate disclosure in the financial statements. Details of non-audit fees incurred between committee meetings during the reporting period are presented and ratified at committee meetings.

During the period the external auditor (including the Office external auditor) received R 2 903 859 (2016: R3 384 974) for non-audit services relating to taxation and other services to the Group, equivalent to 29% (2016: 38%) of the annual audit fee. The majority of this fee related to services provided by the Office external auditor (PricewaterhouseCoopers LLP), and was invoiced in GBP. (Refer to note 29.5 of the Group annual financial statements for further detail.)

## COMMITTEE FUNCTIONING

During the reporting period, three committee meetings were held. Meetings are scheduled to coincide with the key dates in the Group's financial reporting and audit cycle.

Reports routinely considered by the committee at these meetings included the Chief Financial Officer's Report, the report of the Office Finance Director, the report of the Internal Audit Department (including its coverage plan and IT audit activities) and the Group Tax Report.

In addition, the chairman of the committee is a member of the Risk Committee, attends its quarterly meetings and is able to provide feedback to the committee on the Risk Committee's activities and recommendations.

The committee also considered the draft interim, preliminary and annual financial reports and announcements, and the integrated annual report, prepared by management, and recommended their adoption by the board subject to identified amendments. The committee further considered the external auditor's audit plan and the appropriateness of the responses of management to the comments raised by the auditor in relation to the prior period audit.

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## AUDIT COMMITTEE REPORT (continued)

During the reporting period the committee undertook the following:

- nominated for appointment the external auditor and obtained assurance from management that this appointment complied with legislative requirements;
- noted which audit partner had been assigned to the annual audit engagement;
- approved the external auditor's fees and terms of engagement that had been negotiated by management;
- reviewed the Group's tax risk management and compliance activities, particularly relating to value added tax and income tax in South Africa and the Group's fiscal obligations in countries in the rest of Africa;
- considered the methods deployed by management to promote sound IT governance and information security and monitor progress, by way of a scorecard maintained by the Group's Information Systems Audit Manager, made by management towards attaining Group objectives in these areas;
- considered progress made in the implementation of the Group's internal audit coverage plan, the key findings from such audits and special investigations conducted, and key outcomes arising from the Group's loss prevention system;
- considered the report of the JSE's Financial Reporting Investigations Panel on its findings arising from the Panel's monitoring of the financial reports published by JSE listed companies during 2016;
- noted the establishment and monitored functioning of an audit committee within Office, the Group's business in the United Kingdom, which subsidiary committee has reporting obligations to the committee;
- considered the reports and meeting minutes of the Office audit committee;
- considered and approved the tax review policy applicable to its tax compliance obligations in Africa;
- considered presentations and recent developments relating to the JSE Listing Requirements and matters for consideration in relation to the King IV code, and
- considered presentations by management on new IFRS applicable to the Group in future financial periods, including implementation plans for their adoption and proposed accounting policy disclosure.

The committee was not required to deal with any complaints relating to accounting practices or internal audit, nor to the content or audit of the Group's annual financial statements.

The committee carried out its other responsibilities as set out in its board-approved charter, including those relating to the audit and financial reporting obligations of the Group's subsidiary companies and charitable and other trusts, during the reporting period by way of a consideration of annual financial statements and interim and preliminary reports, and audit and management reports at its scheduled meetings.

Following each meeting of the committee, the chairman of the committee submits a written report to the directors on the committee's activities, findings and recommendations, and presents and invites questions on this report at the board meeting immediately following the committee meeting.

The chairman and members of the committee attend the annual general meeting of shareholders to answer any questions relating to the committee's activities.

### CHIEF FINANCIAL OFFICER'S EXPERTISE AND EXPERIENCE

The committee reports in terms of the JSE Listings Requirements that, based on a formal assessment process, it was satisfied as to the appropriateness of the expertise and experience of the Group's Chief Financial Officer during the reporting period.

### FINANCE FUNCTION'S EXPERTISE, RESOURCES AND EXPERIENCE

Based on a consideration of the qualifications, participation in continuing professional education and the nature, duration and relevance of the experience of key managers in the Group's finance department, as well as a review of the staff complement, functional responsibilities of and information systems available to the department, the committee reports in terms of the King III Code that it is satisfied as to the appropriateness of the collective expertise and experience of the Group's finance functions, both in South Africa and the United Kingdom and the adequacy of their human and technological resources.

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## AUDIT COMMITTEE REPORT (continued)

### ANNUAL FINANCIAL STATEMENTS AND INTEGRATED ANNUAL REPORT

The committee has recommended the Group's 2017 audited annual financial statements (of which this report forms part), and the 2017 Integrated Report, to the board for approval.

### APPROVAL OF THE REPORT

The committee confirms that it has functioned in accordance with its charter for the reporting period and that its report to shareholders was approved by the board on 17 August 2017.

A handwritten signature in black ink, appearing to read 'MA Thompson', with a period at the end.

MA Thompson  
Chairman

Audit Committee  
17 August 2017