

Audit, Risk and Compliance Committee report

for the year ended 28 February 2019

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The information below constitutes the report of the Audit, Risk and Compliance Committee (“ARCC” or “the committee”).

The Audit, Risk and Compliance Committee comprises three independent non-executive directors: Johnson Njeke (Chairman), John McCartney and Ekta Singh-Bushell. *Curricula vitae* for these directors are on page 13 of the Integrated Report and evidence their relevant skills and suitable experience. The Chief Executive Officer, Jens Montanana, the Chief Financial Officer, Ivan Dittrich, the Chief Risk Officer, Simon Morris and the external and internal auditors are invited to attend all meetings. The external and internal auditors have unrestricted access to the committee and also meet with the committee members, without management present, at least once a year. Attendance at committee meetings is set out in the value protection section of the Integrated Report.

The committee meets at least three times a year. In the year under review and subsequently up to the date of this report, the committee has met five times, with all members in attendance. The Chairman of the committee reports on the committee's activities at each Board meeting.

The committee operates within defined terms of reference as set out in its charter and the authority granted to it by the Board. The charter is reviewed annually to confirm compliance with the King IV™ Code and the Companies Act and to ensure the incorporation of best practice developments.



The charter is available at www.datatec.com.

The committee is satisfied that it has met its responsibilities for the year under review and to the date of this report with respect to its terms of reference as set out in its charter. Further, the committee is satisfied that it has complied with its legal and regulatory responsibilities throughout that period.

Each of Datatec's main operating divisions has an audit, risk and compliance committee, chaired by the Group Chief Financial Officer, Ivan Dittrich. Reports from these committees are submitted to the Datatec ARCC, which retains all the functions of an audit committee in respect of Datatec's subsidiaries.

In terms of the Companies Act and the JSE Listings Requirements, the committee has considered and satisfied itself of the appropriateness of the expertise and experience of Ivan Dittrich, that the Group has established appropriate financial reporting procedures, and that those procedures are operating. Further, the committee considers the appropriateness of the expertise and adequacy of resources of the Group's finance function and the experience of senior management responsible for the finance function annually. For the year under review, the committee is satisfied in this regard.

The committee is responsible for selecting the external auditor and recommending its appointment to the shareholders. Deloitte & Touche has been the external auditor for 24 years and has the policy of rotating the designated partner every five years. The current designated audit partner is M Rayfield who is in the second year of his tenure. The committee monitors the external auditor and obtained and reviewed the information specified in paragraph 22.15(h) of the JSE Listings Requirements. The committee is satisfied that Deloitte & Touche and the designated audit partner are independent of the Company, that the quality of their audit work is of a sufficiently high standard and assessed them as suitable for reappointment. The committee is also responsible for approving the external auditor's fees and oversees the Company's policy on the provision of non-audit services by the external auditor which contributes to maintaining the external auditor's independence.

The committee reviews the activities and effectiveness of the Group's internal audit function and annually reviews the internal audit charter and recommends it to the Board. The Company has developed an in-house internal audit team which took over from the outsourced internal audit function provided by EY with effect from 1 March 2019. During FY19, the committee reviewed the transition process for internal audit to ensure it was effective.

The committee assists the Board in reviewing the risk management process and significant risks facing the Group (see pages 62 to 67). The committee reviews the Group's risk strategy with the executive directors and senior management and oversees the Group's use of recognised risk management and internal control models and frameworks to maintain a sound system of risk management and internal control. Combined assurance processes are in place throughout the Group to provide the committee with internal management assurance and external assurance from a range of assurance providers including the outsourced internal auditor. The ARCC is satisfied that the appropriate processes are in place, including effective combined assurance, to enable the Board to make an objective assessment of the Group's system of internal controls and risk management.

The committee is tasked with reviewing the interim and Annual Financial Statements and Integrated Report. The ARCC recommended the Annual Financial Statements for the year ended 28 February 2019, for approval to the Board. The Board has subsequently approved the Annual Financial Statements which will be presented at the forthcoming Annual General Meeting.

Audit, Risk and Compliance Committee report continued

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SIGNIFICANT AREAS OF JUDGEMENT

The results and statement of financial position presented in the Annual Financial Statements require many areas where judgement is needed. These are outlined in the notes to the Annual Financial Statements. The committee has considered the qualitative and quantitative aspects of information presented in the statement of financial position and other items that require significant judgement and notes the following:

- SYNEX transaction earn-out; and
- the assessment of goodwill impairment.

In making its assessment in each of the above areas, the committee examined the external auditor's report and questioned senior management in arriving at their conclusions.

SYNEX transaction earn-out

Pursuant to the sale of Westcon Americas to SYNEX in the 2018 financial year, an earn-out payment would be made if certain gross profit targets for Westcon Americas had been met for the 12 months ended 28 February 2018.

The earn-out payment has not yet been agreed between the parties, who are currently engaged in an arbitration process. The results contain an estimate of the fair value of the receivable of US\$11.7 million after costs which are estimated to be the minimum amount receivable and which is included in profit from discontinued operations in accordance with IFRS 5. The Group has recognised an asset for the fair value of the receivable, included in other receivables under current assets.

Due to the uncertainty of the final earn-out amount, a contingent asset arises for any potential upside above the amount of the receivable recognised.

Based on their review of the underlying issues and assumptions, the committee considers the accounting treatment for the earn-out to be appropriate.

Assessment of goodwill impairment

Goodwill is assessed annually for impairment. The directors have exercised significant judgement on the recoverability of the carrying value of goodwill. This is determined with reference to each cash-generating unit's value-in-use, based on the cash flow forecasts approved by senior management. There is estimation and judgement involved in the forecasting and discounting of future cash flows, with the future cash flows and discount rates being the most significant assumptions influencing the valuation to determine if any impairment is required in terms of IFRS.

In evaluating goodwill for impairment, the committee has considered the impairment tests, in terms of the assumptions used, sensitivities applied and resultant headroom. Based on the review of the calculations and assumptions used in the valuation models, the committee considers the assessment of goodwill impairment and disclosures in terms of IFRS to be appropriate. Refer to Note 8 in the consolidated annual financial statements.



MJN Njeke

Audit, Risk and Compliance Committee Chairman
Sandton

15 May 2019