

Audit, Risk and Compliance Committee report

for the year ended 28 February 2018

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

The Audit, Risk and Compliance Committee comprises four independent non-executive directors: Chris Seabrooke (Chairman), Stephen Davidson, Funke Ighodaro and Johnson Njeke. *Curricula vitae* for these directors are on pages 10 and 11 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 on pages 38 and 39 of the Integrated Report.

The committee meets at least three times a year. In the year under review and subsequent 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 23 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 first 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 outsourced internal audit function and annually reviews the internal audit charter and recommends it to the Board.

The committee assists the Board in reviewing the risk management process and significant risks facing the Group (see pages 40 to 44). 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 2018, for approval to the Board. The Board has subsequently approved the annual financial statements which will be presented at the forthcoming Annual General Meeting.

SIGNIFICANT AREAS OF JUDGEMENT

The results and statement of financial position presented in the 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:

- > discontinued operations; and
- > assessment of goodwill impairment.

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

Discontinued operations

The key risk in terms of the discontinued operations pertains to the appropriate application of IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations*.

The directors applied significant judgement in determining the goodwill and intangible assets previously attributable to the disposal group to be derecognised in calculating the profit on disposal of Westcon Americas.

Given the significance of the Westcon Americas disposal group to the consolidated financial results, the disclosures in relation to the disposal group would be fundamental to the presentation of the financial statements.

The committee has assessed management's judgement in determining the goodwill and intangible assets previously attributable to the disposal group to be derecognised in calculating the profit on disposal of Westcon Americas, taking into account the financial performance of the disposal group. Based on the assessment, the committee considers the application of IFRS 5 in terms of the judgement applied to be appropriate and the disclosures in relation to the disposal group to be adequate. Refer to Note 36 in the consolidated financial statements.

Assessment of goodwill impairment

Goodwill is assessed annually for impairment. The directors have exercised significant judgement on the recoverability on 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 financial statements.



CS Seabrooke

Audit, Risk and Compliance Committee Chairman
Sandton

16 May 2018