

# Audit, Risk and Compliance Committee report

for the year ended 29 February 2020

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

The ARCC comprises four independent non-executive directors: Johnson Njeke (Chairman), John McCartney, Ekta Singh-Bushell and Rick Medlock. *Curricula vitae* for these directors are on pages 22 and 23 of the Integrated Report, together with their relevant skills and suitable experience.

The following officers are invited to attend all meetings of the ARCC:

- Chairman of the Board, Stephen Davidson;
- Chief Executive Officer, Jens Montanana;
- Chief Financial Officer, Ivan Dittrich;
- Chief Risk Officer, Simon Morris;
- Chief Audit Executive, Marcos Bedendo (internal audit); and
- external audit partner.

The external and internal auditors have unrestricted access to the ARCC and also meet with the committee members, without management present, at least once a year. Attendance at committee meetings is set out in the risk report in Investor Information.

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 six 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](http://www.datatec.com).

The committee is satisfied that it has met and complied with its legal and regulatory 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.

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, the Group Chief Financial Officer. 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 in the finance function and the risk management organisation. For the year under review, the committee is satisfied that the Group has established appropriate financial reporting procedures and controls, and that those procedures and controls are operating effectively.

The committee is responsible for selecting the external auditor and recommending its appointment to the shareholders. Deloitte & Touche has been the external auditor for 25 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 third year of his tenure.

Following the 2019 AGM, the Company undertook a process to identify a new external audit firm for the year ending 28 February 2021 (“FY21”) and the ARCC took a leading role in the selection process. After meeting in January 2020 the committee recommended to the Board that PricewaterhouseCoopers (“PwC”), be appointed as the new external auditors for the Group subject to shareholder approval at the 2020 AGM on 29 July 2020.

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 and that the quality of their audit work is of a sufficiently high standard in relation to the FY20 audit.

In relation to the new external auditor, PwC, the committee has also obtained and reviewed the information specified in paragraph 22.15(h) of the JSE Listings Requirements. The committee is satisfied that PwC and the designated audit partner are independent of the Company and assessed them as suitable for appointment.

In its assessment of the quality of the work of the current external auditor and the suitability of the new external auditor, the committee made reference to audit quality indicators included in inspection reports issued by external audit regulators.

The committee is responsible for approving the external auditor’s fees and oversees the Company’s policy and controls that address the provision of non-audit services by the external auditor and the nature and extent of such services rendered during the financial year. This 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 ARCC receives reports from the Chief Audit Executive at each of its meetings and reviews the progress of the internal audit programme, results and findings from internal audit work and actions taken by management to resolve issues in a timely manner.

# Audit, **Risk and Compliance Committee report** continued

for the year ended 29 February 2020

The committee assists the Board in reviewing the risk management process and significant risks facing the Group. 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 closely involved in the JSE proactive monitoring of annual financial statements. It reviews the annual report issued by the JSE on this subject and related information and ensures that all the comments by the JSE are taken into consideration in its review of the Group's financial information.

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 29 February 2020 for approval to the Board. The Board has subsequently approved the annual financial statements which will be presented at the forthcoming Annual General Meeting.

## **KEY SOURCES OF ESTIMATION UNCERTAINTY**

The results and statement of financial position presented in the annual financial statements require many areas where key assumptions concerning the future, and other key areas of estimation included in the Group's annual financial statements, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

These are outlined in the notes to the annual financial statements. The committee has considered in particular the qualitative and quantitative aspects of information presented in the statement of financial position and other notes that contain sources of estimation and uncertainty in the following areas:

- estimates made in determining the recoverable amount of goodwill included in the statement of financial position. This is considered to be a key audit matter. Refer to Note 9 for further discussion of the methodology and rationale for selecting these inputs to management's estimations;
- estimates made in determining the probability of future taxable income justifying the recognition of deferred tax assets;
- estimates made in determining the level of provision required for obsolete inventory and the accounting for rebates from suppliers;
- estimates made in determining the amount or timing relating to restructuring, legal claims, taxes, pension and dilapidation obligations; and
- estimates made when measuring the expected credit losses.

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.

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

## **CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Going concern**

On 11 March 2020 the World Health Organization ("WHO") declared the coronavirus outbreak causing the disease COVID-19 to be a global pandemic. The directors have reviewed the future profit and cash flow projections in conjunction with the current economic climate as well as banking facilities in place to support all the operations, in order to express an opinion on the adequacy of working capital and the ability to continue as a going concern for the foreseeable future. These projections covered future financial performance, solvency and liquidity for a period of 12 months from the date of approval of these financial statements, including performing sensitivity analyses and stress testing of various possible scenarios, varying in severity, related to COVID-19. These scenarios included contingency planning for restructuring actions to be taken in response to the more severe scenarios. It is, however, difficult to predict the overall outcome and impact of COVID-19.

The Group's projections and sensitivity analyses show that the Group has sufficient capital and liquidity to continue to meet its short-term obligations. As a result it is appropriate to prepare these annual financial statements on a going concern basis.

As the WHO declared COVID-19 a global pandemic on 11 March 2020 after the reporting date of the Group, the Group considers this to be a non-adjusting event after the reporting date as the directors are of the view that the impact of the pandemic on the global markets and economy could not have sufficiently been anticipated at 29 February 2020. As a result the financial effects resulting from the impact of COVID-19 have not been reflected in the Group's financial statements as at 29 February 2020.



**MJN Njeke**

*Audit, Risk and Compliance Committee Chairman*  
Sandton