Risk **report**

The Board is responsible for Datatec's strategy, leadership and decision-making which are all impacted by risk. Risk-based leadership, with the Board at its apex, is fundamental to Datatec.

Johnson **Njeke**

Audit, Risk and Compliance Committee Chairman

Risk policy
The Group's risk policy:
- sets out and explains Datatec's approach to risk and risk management;
- records the Board's evaluation of Datatec's risk appetite for the main categories of risk;
- explains the principles behind Datatec's risk management framework which contains the procedures by which the policy is implemented; and

- supports management in managing risk, allowing risk to be managed on a decentralised basis subject to Group overview.

The approach to risk management and internal control defined in the risk policy has been applied throughout the year under review and up to the date of approval of this Integrated Report and annual financial statements.

The risk policy is reviewed by the ARCC and approved annually by the Board. The latest update was approved on 19 March 2020.

While all risks are continually monitored, the ARCC is paying particular attention to the impact of COVID-19 on the business, and on going concern in particular. The risk of cyber security threats continued to be monitored during FY20.

The risk management framework for maintaining sound risk management and internal control systems throughout the Group is explained in more detail later in this report.

Board assessment of the Group's system of internal controls and risk management

Nothing has come to the attention of the Board or has arisen out of the internal control self-assessment process, internal audits or year-end external audit that causes the Board to believe that the Group's system of internal controls and risk management is not effective or that the internal financial controls do not form a sound basis for the preparation of reliable financial statements. The Board's opinion is based on the combined assurances of external and internal auditors, management and the ARCC.

Risk management framework

The Group's risk management process has three key steps:
- Identify key risks – document in risk registers
- Implement controls to mitigate risk – monitor through continuous review
- Obtain assurance that controls are effective – combined assurance programme

Within this framework, the specific responsibilities of different designates and the processes they follow are set out below:

Responsibility	Process
Board • Extensive experience in the Group's main business streams • Experience of the non-executive directors in other fields of business	• Level of risk tolerance and limits of risk appetite are set as part of the strategic direction of the Group • A combined assurance framework is in place to ensure adequate assurance that the controls over the identified risks are operating effectively • A Group risk register is maintained and risks across all aspects of the Group's operations are considered, including financial, market, political and operational risks, as well as social, ethical and environmental risks 📑 Information available elsewhere in the risk report.
Audit, Risk and Compliance Committee	• Monitors risk management activities on an ongoing basis • Discusses risk topics raised • Reviews divisional summary risk registers semi-annually • Reviews divisional audit, risk and compliance committee meeting minutes • Reviews divisional management risk committee meeting minutes
Group Chief Risk Officer ("CRO")	• Chairs CRO forum • Chairs ICT Governance Committee • Maintains Group risk register • Reports to CFO • Reports to ARCC • Ensures that the risk management framework is operating effectively in the divisions • Ensures improvements in the controls and risks identified in the Group risk register
Divisions – divisional boards and executive committees **Head office – Datatec Risk Committee**	• Regularly review strategic and emerging risks • Input to risk registers • Identify and prioritise high-risk areas on risk maps based on impact and likelihood • Impact ratings are broadly defined in terms of financial thresholds, operational impacts, regulatory compliance, customer and community impacts, employee impacts and reputational impacts • Likelihood ratings are defined in terms of the overall likelihood of a risk materialising • Further analyse high-risk areas to identify potential root causes • Identify mitigating controls and associated monitoring/assurance activities for each high-risk area • Assign an executive to monitor and manage specific risk areas • Review risk registers and risk maps semi-annually
Divisional Chief Risk Officers	• Ensure divisional risk procedures are in accordance with and support the Group's risk management framework • Maintain divisional risk registers • Co-ordinate the execution at divisional level of the risk management framework • Identify emerging risk and compliance issues • Report on divisional management of risk to divisional audit, risk and compliance committees (which report to the divisional boards) • Oversee management's response to matters identified as requiring improvement

Risk **report** continued

Financial and internal control

The Group's internal control and accounting systems are designed to provide reasonable, but not absolute, assurance as to the integrity and reliability of the financial information and to safeguard, verify and maintain accountability of its revenues and assets. These controls are implemented and maintained by skilled personnel.

The operation of key internal controls is assessed annually using an internal control questionnaire ("ICQ") which is completed by all Group subsidiaries with operational accounting functions. The results of the ICQ are critically assessed by divisional and Group management and assist in harmonising controls and setting standards across the business.

Combined assurance

A combined assurance framework for monitoring and evaluating the effectiveness of the internal controls is in place throughout the Group. This framework deploys and co-ordinates internal and external assurance providers to report on the effectiveness of the Group's internal controls.

A combined assurance model aims to optimise the assurance coverage obtained from management, internal assurance providers and external assurance providers on the risk areas affecting the Group. Within Datatec there are a number of assurance providers that either directly or indirectly provide the Board and management with certain assurances over the effectiveness of those controls that mitigate the risks as identified during the risk assessment process. Collectively, the activities of these assurance providers are referred to as the combined assurance framework.

Information available on page 4.

As the nature and significance of risks vary, assurance providers are required to be equipped with the necessary expertise and experience to provide assurance that risks are adequately mitigated. External assurance providers include external audit, internal audit, regulators, sustainability assurance providers and other professional advisers.

In the combined assurance model, each control is linked to a specific assurance provider, where applicable, to enable the following to be identified:
- risk areas where no/insufficient controls have been identified;
- risk areas where controls have been identified, yet insufficient assurance is provided (gaps); and
- risk areas where duplicate or "excess" assurance is provided (duplication).

Combined assurance framework
- Management-based assurance: Management oversight, including strategy implementation, performance measurements, control self-assessments and continual monitoring mechanisms and systems:
  - Local management is required to complete and submit the ICQ annually and this is monitored against internal control norms. Action is taken where ratings are considered to be inadequate. Ratings are also reviewed by the Audit, Risk and Compliance Committee.
  - In addition, the Board obtains a formal letter of assurance twice a year from each of its subsidiary divisions (supported by similar representations from the divisions' own subsidiaries) which provides the Board with assurance over the operation of the risk management processes described above, including the operation of internal controls over financial and IT risks, compliance with legislation, and the ethical and sustainable management of the business.

- Internal assurance: Risk management (adopting an effective enterprise risk management framework), legal, compliance, health and safety, and quality assurance departments are included. They are responsible for maintaining policies, minimum standards, oversight and risk management performance and reporting.
- Independent assurance: Independent and objective assurance of the overall adequacy and effectiveness of risk management, governance and internal control within the organisation is predominantly the role of internal audit, external audit and other expert assurance providers required from time to time.
- Oversight committees: Appropriate assurance providers under each of the above categories have been identified:
  – The ARCC
  – The Social and Ethics Committee with regard to oversight of the Group's controls in the sphere of ethics, corporate social responsibility and sustainability
  – The Remuneration Committee with regard to controls in the remuneration sphere
  – The Nominations Committee in relation to Board diversity and corporate governance structures
- Management has used this model to conclude on the completeness and appropriateness of the current assurance activities for each risk identified and that the level of assurance provision is satisfactory. It continues to maintain the framework as part of the ongoing risk management process.

- The ARCC has reviewed the combined assurance frameworks for the Group and the three divisions to satisfy itself with management's conclusions and will continue to review them as part of its role in oversight of risk management.
- In light of its review of the combined assurance framework, the ARCC has recommended to the Board that appropriate assurance activities are in place in relation to the controls operating over each risk identified in the risk management process.

The governance of ICT

The Board has the responsibility to govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives (King IV™ Principle 12). To achieve this, the governance of ICT is firmly embedded in the Group's risk management framework. ICT risk is managed across all operations with controls and assurance provision to be maintained and reviewed in the same way as for other risks. The Board has adopted an ICT governance policy setting out the Group's approach to ICT governance. Within this policy, an ICT Governance Committee has been established comprising divisional ICT risk management and ICT executives with the aim of reinforcing the integration of IT risk issues into the Group's risk management framework.

The Board includes a review of ICT governance procedures operated by the Group's major divisions in its annual timetable to assist in its ICT governance role.

Risk **report** continued

There are documented and tested procedures in the major subsidiaries which will allow them to continue their critical business processes in the event of a disastrous incident impacting their activities. Such business continuity planning procedures are reviewed annually and, where weaknesses are identified, the relevant subsidiaries are required to rectify them.

Management reporting
The Group operates management reporting disciplines which include the preparation of annual budgets by operating entities. Monthly results and the financial status of operating entities are reported against approved budgets. Project projections and cash flow forecasts are reviewed regularly, while working capital, borrowing facilities and bank covenant compliance is monitored on an ongoing basis.

All financial reporting by the Group, including external financial reporting and internal management reporting, is generated from the same financial systems which are subject to the internal controls and risk management procedures described below.

Compliance framework and processes
The Board governs compliance with applicable laws and adopted non-binding rules, codes and standards in a way which supports the organisation being ethical and a good corporate citizen (King IV™ Principle 13). Each division manages compliance with relevant laws and regulations, which the ARCC has divided into the following broad categories for the purposes of monitoring. These are considered to be the main themes/classes of legislation which pose the biggest risk to Datatec in the event of breach:
- Corporate law – companies acts, financial reporting
- Financial law – anti-money laundering and fraud
- Export regulations – trade sanctions and foreign corrupt practices
- Import regulations – including duty and VAT
- Taxation

- Securities law – insider dealing and stock exchange compliance
- Employment law – unfair dismissal, employment practices, health and safety
- Intellectual property, trademarks and patents
- Competition legislation
- Customer protection legislation

Each category is considered in the risk assessment process and, if appropriate, a risk is recorded on the relevant risk register and managed in accordance with the risk management framework set out in this report. The divisions' audit, risk and compliance committees report on each category of legislation above, noting whether any breaches of compliance have been identified.

Internal audit
Internal audit is an independent appraisal function which examines and evaluates the activities and the appropriateness of the systems of internal control, risk management and governance. The internal auditor is the key assurance provider in the Group's combined assurance framework described on page 4. The function provides the Board with a report of its activities which, along with other sources of assurance, is used by the Board in making its assessment of the Group's system of internal controls and risk management.

Datatec has an in-house internal audit function which operates within defined terms of reference as set out in its charter and the authority granted to it by the ARCC and the Board, and reports to the ARCC with notification to the CRO.

The internal audit team reports to the CRO on day-to-day matters, and to the Chairman of the ARCC and, in addition, has unfettered access to the Group CEO and CFO as required.

Audit plans are presented in advance to the ARCC for approval. The plans are based on an assessment of risk areas involving an independent review of the Group's own risk assessments which are recorded in the risk registers. Audits include Group-wide reviews of specific risk areas as well as "baseline control" audits of key controls applying to business processes at specific locations. Baseline control audits include an independent assessment by the internal auditor of the ICQ responses of the entity being audited for the controls in scope for the audit in order to validate the ICQ self-assessment.

The internal audit team attends and presents its findings to the ARCC. Management is responsible for acting on the findings of internal audit and implementing remedial action to correct identified control weaknesses. Internal audit reviews management's actions on the findings and reports back on the effectiveness of the response. An example of an internal audit finding which is being addressed by management across the Group is weakness in access controls to IT systems. The internal audit process and management's response to the findings thereby contribute to a continuous improvement culture in the Group's risk management function.

The ARCC is satisfied that internal audit has met its responsibilities for the year with respect to its terms of reference.

External audit

The ARCC is responsible for recommending the external auditor for appointment by shareholders and for ensuring that the external auditor is appropriately independent. 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 external auditor carries out an annual audit of all the Group's subsidiaries in accordance with international auditing standards and reports in detail on the results of the audit both to the audit, risk and compliance committees of the Group's divisions and to the Group ARCC. The external auditor is therefore the main external assurance provider for the Board in relation to the Group's financial results for each financial year.

The ARCC regularly reviews the external auditor's independence and maintains control over the non-audit services provided, if any. Pre-approved permissible non-audit services performed by the external auditors include taxation and due diligence services. The external auditor is prohibited from providing non-audit services such as valuation and accounting work where its independence might be compromised by later auditing its own work. Any other non-audit services provided by the external auditor are required to be specifically approved by the Chairman of the ARCC or by the full committee if the fees are likely to be in excess of 50% of the audit fee.

Johnson Njeke
Chairman
Audit, Risk and Compliance Committee

Risk **report** continued

ARCC constitution and operation

The committee operates within defined terms of reference as set out in its charter which has been approved by the Board.

The ARCC charter is available on the Group's website **www.datatec.com**.

The ARCC during FY20 consisted of the following independent non-executive directors:

- Johnson Njeke (Chairman)
- John McCartney
- Ekta Singh-Bushell
- Rick Medlock

The ARCC meets at least three times a year and the external auditors, the internal auditors, CEO, CFO, CRO and Group Legal are invited to attend.

Directors' attendance at ARCC meetings during FY20 and subsequently to the date of this report (all meetings were scheduled) is as follows:

	13 March 2019	13 May 2019	14 October 2019	**14 January 2020**	**18 March 2020**	**18 May 2020**
MJN Njeke	P	P	P	**P**	**P**	**P**
CRK Medlock				**P**	**P**	**P**
JF McCartney	P	P	P	**P**	**P**	**P**
E Singh-Bushell	P	P	P	**P**	**P**	**P**

P = present

= not a director at the time

Note: John McCartney stepped down from his committee role on the ARCC with effect from 31 May 2020.

The principal functions of the committee are to:
- review the annual financial statements, the half-yearly results announcement and other financial reports;
- ensure the Group has established appropriate financial reporting procedures and that those procedures are operating effectively;
- assess the risks facing the business and review the Group's risk management procedures;
- monitor the effectiveness of internal controls and comment on the state of the internal control environment;
- review the internal and external audit plans and discuss the findings and recommendations of the internal and external auditors; and
- review the effectiveness of the external auditors including considering the findings of: the inspection performed by the auditors' regulatory body; the auditors' internal engagement monitoring inspection; the outcome of any legal or disciplinary procedures; and review the effectiveness of the internal auditors.

The committee reviews its performance annually by means of questionnaires completed by individual committee members and attendees which are then discussed at Board and committee meetings. These appraisals enable the committee to evaluate its effectiveness objectively and to conclude that it is operating effectively under the terms of reference set down in its charter.

The committee is satisfied that it has met 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.

The Chairman of the committee will be available at the AGM to answer queries about the work of the committee.