

Audit, Risk and Compliance Committee Report



Aboubakar Jakoet
Chair, Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee is pleased to present its report for the financial period ended 25 February 2024 (FY24). This report was prepared in accordance with the requirements of the Companies Act, No 71 of 2008, as amended (the Companies Act), the King IV™ Report on Corporate Governance for South Africa and King Code of Governance Principles (King IV), the JSE Limited Listings Requirements (Listings Requirements), International Financial Reporting Standards (IFRS) and other applicable regulatory requirements.

Mandate of the Group Audit, Risk and Compliance Committee ("GARCC" or "the Committee")

The board of directors of the Company (**the Board**) has delegated the statutory and regulatory duties arising from the Companies Act, Listings Requirements, and risk governance and legislative compliance to the Committee.

The mandate and responsibilities of the Committee are incorporated in the Committee's charter, which is reviewed annually and approved by the Board. The Committee charter is included in the Group's corporate governance charter and can be viewed at www.picknpayinvestor.co.za/governance.php.

The Committee is a statutory committee responsible for fulfilling the responsibilities under section 94(7) of the Companies Act, including to:

- Provide independent oversight of the effectiveness of the Group's framework of combined assurance, the integrity of external financial reporting and the Group's governance of risk and compliance
- Consider the independence and effectiveness of the external auditor and recommend the external auditor's appointment to shareholders

Committee Chair Statement

The Group experienced one of the most challenging periods of its history in FY24. The substantial strategic investment into the Group's core Pick n Pay supermarket business did not generate the required returns targeted under its previous long-term strategy. A rapid deterioration in the performance of that business led to operating losses, higher levels of gearing and placed severe pressure on the Group's liquidity and ability to meet debt covenants.

These difficult circumstances required decisive remedial action by the Board to stabilise the Group's balance sheet and provide adequate capital for long-term sustainable growth, including:

- Changing executive and senior leadership
- Revising the Group's strategy and improving strategic execution
- Implementing a strong recapitalisation plan

The Committee provided invaluable support in navigating these difficulties. In particular, it leveraged the skill and experience of its Treasury sub-Committee to provide significant guidance in the:

- Engagement with lenders
- Evaluation and appointment of independent corporate finance advisors
- Deliberation of capital raise alternatives for the Group and the recommendation of a two-step Recapitalisation Plan, comprising a Rights Offer to existing shareholders and the listing of the Group's Boxer business
- Methodical steps taken to secure liquidity and sustain the Group's ability to continue operating as a going concern for the foreseeable future

The FY24 financial performance and the Group's more difficult financial position necessitated a greater focus on the reasonableness of financial budgeting and forecasts, accuracy of cash flow forecasts, improvement of working capital management, assurance of adequate borrowing facilities and the strength of financial and other internal controls. In particular, the Committee performed a detailed evaluation of the Group's ability to operate as a going concern over the foreseeable future. This included thorough assessments of the adequacy of Group liquidity and solvency, the adequacy and reasonableness of the Group's new strategic plan to significantly improve Pick n Pay's performance, and all the underlying potential risks within the Recapitalisation Plan. Please refer to Note 35 of the Group Annual Financial Statements for further information.

The Committee remained mindful of the strain on the Group's executive management and finance and operational teams and worked closely with management to retain key skills and talent during this period of upheaval.

The Committee's focus areas and the activities undertaken are set out in this report.

The Committee's responsibilities

The Committee is responsible for monitoring financial, risk and compliance policies and processes across the Group. It discharges this responsibility by overseeing management's implementation of these policies and processes. The Committee ensures that adequate systems are in place to identify, evaluate and manage key business risks. It dedicates sufficient time to assurance functions, financial reporting and risk governance and compliance. The Committee is authorised by the Board to investigate any activity within its terms of reference.

The Committee has the right to:

- Request and obtain unrestricted access to records and information
- Consult directly with the Group internal audit function, senior management and the external auditor
- Obtain outside legal or other professional advice
- Have access to the resources it needs to fulfil its responsibilities

The Board's role and responsibility

The Board remains responsible for reviewing and approving the Annual Financial Statements for the Group and Company, and for Group-wide combined assurance, compliance and risk governance.

The Board acknowledges that the Group will be exposed to certain risks in the fast-moving consumer goods industry in South Africa and the rest of the African continent. The Board aims to maintain an appropriate balance between risk and reward, protecting all stakeholders against avoidable risks, and mitigating the impact of unavoidable risks.

Governance and Committee members

The Committee comprises of only independent non-executive directors. The Board nominates members annually for the ensuing financial period and they are elected by shareholders at the Annual General Meeting (AGM).

All Committee members satisfy the requirements to serve as a member of an audit committee, as provided in section 94 of the Companies Act. They have the necessary financial literacy skills and experience to execute their duties effectively. The Board's annual independence review assesses the independence of the Committee. The curriculum vitae of each Committee member will be included in the 2024 Notice of AGM.

Fees paid to members are approved by shareholders each year and are set out in the Group's Remuneration Report.

The Committee follows a formal work plan designed to execute its responsibilities over the period. It meets formally twice a year, with ad hoc meetings when needed. Formal Committee meetings are held over two days and include the following invitees: Board Chair; Chief Executive Officer (CEO); Chief Finance Officer (CFO); Head of Internal Audit; Head of Risk and Compliance; Chief Information Security Officer (CISO); external auditor; and other relevant members of executive management.

In addition, the Committee Chair meets with senior management, the Head of Risk and Compliance and the internal and external auditors whenever necessary. The Head of Risk and Compliance, internal and external auditors have unfettered access to the Committee and its members throughout the year.

There is an open invitation to all Board members to attend Committee meetings, and all directors have access to the papers for each of the Committee's meetings. Other senior executives and professional advisors are invited to meetings when required to provide insight into specific matters.

Specialist sub-committees

The Committee is supported by smaller sub-committees, including the Treasury Committee, the Franchise Committee and divisional Financial Review Committees (when applicable). These sub-committees comprise executive and non-executive directors who provide additional oversight, guidance and feedback in critical focus areas.



The Treasury Committee provided particularly valuable oversight and guidance in FY24.

The Treasury Committee

Chair: James Formby

Members: Gareth Ackerman, Haroon Borhat, David Friedland, Bakar Jakoet, Lerena Oliver, Sean Summers

This Committee oversees the management of the Group's balance sheet, including the Group's liquidity management, capital investment allocation and the effectiveness of its treasury function. Its responsibilities include cash flow and working capital monitoring, ensuring compliance with financial policies and regulations, reviewing borrowing and investment strategies, management of the Group's property portfolio and advising on strategic financial decisions to support the Group's long-term financial health and sustainability.

The Committee also plays a key role in assessing and mitigating financial risk, maintaining relationships with strategic lenders and other financial institutions, and providing oversight of all treasury-related activities to safeguard the Group's assets and support its financial performance.

The Treasury Committee meets at least four times a year, at the end of each financial quarter. In FY24, it met six times to address the Group's sustainable capital structure, sources of funding and liquidity constraints faced by the Group. In particular, the Treasury Committee played a valuable advisory role in the development of the Group's two-step recapitalisation plan and in the engagement with lenders to secure debt covenant waivers and the Restructuring Support Agreement. Please refer to Note 35 of the Group Annual Financial Statements for further information.

The Nominations and Corporate Governance Committee recognised the increasingly valuable role played by the Treasury sub-Committee. It recommended to the Board that it be constituted as a full Board Committee in FY25 under a formal Board mandate and Terms of Reference. The Committee will be renamed the Finance and Investment Committee and committee fees will be subject to shareholder approval.

Further details will be provided in the 2024 Corporate Governance Report.

Meeting attendance and minutes of meetings

Formal minutes of Committee and sub-Committee meetings are made available to all Committee and Board members through a secure online Board reporting platform. The Committee and sub-Committee Chairs report to the Board at each quarterly Board meeting. They report on each Committee's activities over the period and highlight key items deliberated and those requiring specific Board attention or approval.

GARCC composition and meeting attendance for FY24

Members	Qualifications and experience	Attendance
Aoubakar Jakoet (Chair)	A chartered accountant with extensive experience in the retail industry, having previously served as the Group's CFO.	3/3
Haroon Borhat	Professor of Economics and Director of the Development Policy Research Unit at the University of Cape Town. Haroon is a member of the Presidential Economic Advisory Council.	3/3
Mariam Cassim	A chartered accountant with broad auditing and business experience, Mariam is CEO of Vodacom Financial and Digital Services and a member of Vodacom Group's executive committee (telecommunications industry).	2/3
James Formby	A chartered accountant with a Master's in Philosophy in Management Studies. James had a successful 25-year career with the FirstRand Group (financial services industry), retiring as CEO of Rand Merchant Bank in 2022.	3/3
David Friedland	A chartered accountant with expertise in auditing, risk and compliance. David had an extensive career as audit engagement partner with major retail companies.	3/3
Audrey Mothupi	An Honours graduate with business experience in financial services and in data and digital innovation. Audrey is the CEO of the Systemic Logic Group.	3/3

Committee's responsibilities and activities performed in FY24

1. THE GROUP FINANCE FUNCTION AND FINANCIAL AND INTEGRATED REPORTING

The Committee provides independent oversight and objective assessment of the effectiveness of the Group's finance function and the accuracy and integrity of the Group's internal and external financial and integrated reporting.

Key areas of activity

Internal reporting	Key areas of activity
	<ul style="list-style-type: none"> Reviewed internal reports regarding the Group's financial performance, including divisional results, budgets, forecasts and capital investment Interrogated the underperformance in the Pick n Pay supermarket business, including its volume and profit margin contraction Monitored cost increases across the business, including incremental energy costs related to load-shedding and sustained increases in insurance and security costs and the initiatives undertaken to mitigate the cost pressure Monitored the Group's move from its Longmeadow distribution centre to the new Eastport facility, including the supply chain costs duplicated over the transition period Received feedback on the Group's tax position and its tax compliance and were satisfied with the Group's status and compliance Reviewed the financial reporting process and controls over the compilation of the financial information and found it to be effective, appropriate and responsive to business needs Reviewed the Group's integrated reporting function and progress, considering factors and risks that could impact on the integrity of the Integrated Annual Report and the environmental, social and governance (ESG) disclosures provided

Liquidity and balance sheet stability

- Reviewed treasury reports, cash flow forecasts, capital allocations and investment returns and monitored liquidity and performance against debt covenants
- Oversaw all steps taken to bolster Group liquidity, including the sale of the Longmeadow distribution centre and two non-core shopping centres, and the efforts to reduce high levels of inventory
- Oversaw engagements with long-term and short-term lenders
- Reviewed the structure of all borrowing facilities, including the terms and conditions of the covenant waivers received ahead of the FY24 year-end, the debt Restructuring Support Agreement concluded in May 2024 and all related inter-Group financial assistance under s45 of the Companies Act
- Appointed corporate finance advisors (through a formal request for proposal process) to advise on an appropriate recapitalisation plan for the Group and recommended to the Board a two-step plan, comprising a rights offer to existing shareholders and listing the Boxer business on the JSE's main board, subject to shareholder and other regulatory approvals

External reporting and technical IFRS elements

- Reviewed the basis for determining materiality for external reporting
- Reviewed the appropriateness of the Group's accounting policies and guided on increased segmental disclosures in respect of the Group's Pick n Pay and Boxer segments
- Reviewed the adequacy of inventory and debtor provisions
- Reviewed the impairment of Pick n Pay Supermarkets' assets necessitated by the operating losses incurred and the Group's long-term plan to re-set the store estate, and all related deferred tax implications
- Assessed and confirmed the appropriateness of the going concern assumption used in the Group's Annual Financial Statements
- Reviewed comparable earnings disclosures to ensure that shareholders were presented with appropriate financial information to understand the Group's underlying FY24 performance

Other specific items

- Confirmed that the listed Company had an JSE independent sponsor during FY24
- Ensured that the appointment of the external auditor was included as a resolution for a shareholders' vote in the Notice of AGM
- Reviewed feedback from the JSE proactive monitoring panel and included additional disclosure where relevant
- Reviewed and confirmed compliance with the JSE regulations relating to the financial sign-off by the CEO and CFO on the internal financial framework

Outcome of the Committee's oversight in respect of the Group's finance function and financial reporting

The Committee reviewed and recommended to the Board, for approval, the Group's Annual Financial Statements prepared on a going concern basis, interim and final results announcements, all sales and trading updates and ensured all external reports complied with IFRS, the Companies Act, the Listings Requirements and King IV as relevant. The Integrated Annual Report and related suite of corporate governance documents are separately reviewed and approved in June of each year.

2. INTERNAL AUDIT

The Committee provides independent oversight and objective assessment of the effectiveness of the Group's internal audit function. The internal audit function follows a risk-based methodology to identify material business risks, which informs the internal audit plan as part of the Group's annual combined assurance programme. The internal audit function is independent of business operations and provides assurance on the adequacy and effectiveness of internal controls.

Key areas of activity

Internal reporting

- Reviewed and approved the internal audit coverage plan and budget for the ensuing financial period
- Evaluated and confirmed the necessary expertise and experience of the Head of Internal Audit and the composition, experience, skill and independence of the internal audit team
- Met with the Head of Internal Audit independently of management to confirm they had received the full co-operation of management in the undertaking of their duties
- Assessed the adequacy of the performance of the internal audit function and found it to be effective
- Confirmed that internal audit members conform to the recognised industry code of ethics and that the internal audit function had conformed to the key principles of the International Institute of Internal Auditors standards for professional practice of internal auditing

Reporting matters

- Considered the internal audit reports on the Group's system of internal control, including financial controls, corporate governance and business risk management, and ensured ongoing progress in the integration of the Group's framework of combined assurance
- Received assurance that proper and adequate accounting records were maintained, and that systems of internal control were adequate to prevent and/or detect fraud and safeguard assets, while recognising the need for improvements in certain areas to ensure the proper maintenance of accounting records and to strengthen systems of internal control
- Maintained focus on the adequacy and effectiveness of controls over information systems and cybersecurity
- Reviewed the approach of the internal audit function to develop and integrate data analytics and digital capability within internal audit processes and procedures
- Reviewed significant issues raised by internal audit processes and monitored and challenged, where appropriate, the corrective action taken by management regarding adverse internal audit findings

Outcome of the Committee's oversight in respect of internal audit:

The Committee considered the skill, experience and independence of the Group internal audit function and concluded that the internal audit function is appropriate and effective for the Group.



3. EXTERNAL AUDIT

The Committee provides independent oversight and objective assessment of the effectiveness of the Group's external audit function. Ernst & Young Inc. (EY) was appointed as external auditor to the Group in July 2015, following a formal tender process. EY has served as the Group's external auditor for nine financial periods. The Committee annually considers whether a tender process should be adopted to appoint new external auditors.

In terms of section 92 of the Companies Act, the designated auditor of a company is required to be rotated after serving as a company's auditor for five consecutive financial periods. Tina Rookledge was appointed on 5 August 2020 and has been the designated audit partner since then. Tina will be rotated as audit partner in the financial period ending 2026.

Key areas of activity

External audit process	<ul style="list-style-type: none"> Approved the external audit plan and related scope of work for the FY24 annual audit to ensure adequate coverage of material matters and critical risk areas Approved the audit fees for the FY24 external audit Received confirmation from EY as to their internal governance processes that are in place to ensure independence and effectiveness Requested and reviewed the information as per paragraph 22.15(h) of the Listings Requirements from EY when assessing their suitability for their appointment for FY24 Met with management, independently of the external auditor, to discuss issues relevant to the audit and for purposes of evaluating the quality and effectiveness of the external audit function Reviewed the independence of EY in accordance with the provisions of sections 90 and 94 of the Companies Act and assessed the performance and accreditation of EY and Tina Rookledge in terms of the Listings Requirements, applicable regulations and legislation, and the appropriate audit quality indicators, and concluded that it is satisfied with the external auditor's independence, JSE accreditation and performance
Reporting matters	<ul style="list-style-type: none"> Engaged directly with the Group and subsidiary designated audit partners and acted as a liaison between the external auditor and the Board Dealt with questions arising from audit activities and reviewed EY's findings and recommendations, and confirmed that there were no material unresolved matters at the date that the Annual Financial Statements were approved Evaluated the performance and reviewed the reports of the external auditors and ensured that the reporting was reliable, transparent and a fair representation for the use by stakeholders Received and appropriately dealt with any queries relating to the accounting practices of the Group, the content of its financial statements and the internal financial controls of the Group or to any related matter Made submissions to the Board on matters concerning the Group's accounting policies, financial controls, records and reporting Confirmed that no reportable irregularities were identified and reported by the external auditor in terms of the Auditing Profession Act, 26 of 2005 Met separately with the external auditor to confirm that full co-operation was received from management Monitored the effectiveness of the external auditor in terms of their audit quality, expertise and independence, as well as the content and execution of the audit plan

Outcome of the Committee's oversight in respect of external audit:

The Committee concluded that it was satisfied with the level of service rendered by EY during FY24 and was satisfied with EY's independence and JSE accreditation. The Committee concluded that Tina Rookledge has the necessary competence, ability and independence required for the position of designated external audit partner.

The Group will table a resolution at the 2024 AGM to re-appoint EY as the external auditor for FY25.

4. RISK AND COMPLIANCE

The Committee provides independent oversight and objective assessment of the effectiveness of the Group's management of risk, focusing on material existing and emerging risks which could negatively impact on the Group's ability to create and protect stakeholder value.

The Group's risk function is responsible for overseeing the implementation of risk management processes by management. This includes reviewing, challenging, and monitoring management's identification of business, financial and ESG risks and the controls that have been implemented. The combined assurance plan is a structured and integrated approach for coordinating the various assurance activities over the most significant risks to the Group. The Group's compliance function is responsible for overseeing and monitoring compliance to all relevant laws, regulations and standards.

The CFO serves as the Chief Risk Officer for the Group. The day-to-day responsibility for identifying, evaluating and managing risk and compliance remains the responsibility of senior management, under the guidance of the Group Head of Risk and Compliance.

During the period, PwC was appointed to support the Group in improving the maturity of its risk and compliance frameworks, as well as the implementation thereof.

Key areas of activity

Risk and compliance management processes	<ul style="list-style-type: none"> Assisted management in identifying risk areas, including emerging risks, and evaluated the mitigation steps which management had put in place to minimise the impact on the Group Discharged all Risk and Compliance Committee responsibilities of all the Group's material operating divisions Reviewed internal audit findings from a risk perspective Reviewed the risk assurance report and findings and the corrective or mitigative action taken Reviewed all revisions to the Group's compliance framework, including the Group's Code of Ethics and all related ethics policies
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Specific focus areas

- Considered and confirmed that the Group Head of Risk and Compliance had the appropriate expertise and experience for the role
- Evaluated and confirmed the composition, experience, skill and independence of the risk and compliance function
- The material financial and operational impact of load-shedding, including the related impact on water supply, and the mitigation plans put in place to minimise the impact
- The security of supply chain and store operations, including plans to protect the safety of customers and employees and the security of assets during civil unrest
- The maintenance of food safety and occupational health and safety policies
- The Group's insurance covers, including considering ongoing challenges experienced in renewing business interruption covers and the impact of higher insurance premiums
- Employee welfare, talent attraction and retention and the potential for labour disruption in a period of high inflation and low economic growth
- The effectiveness of the franchise model, the security of franchise contributions to the Group and the recoverability of franchise debt
- The social, political and economic events in South Africa and other countries in Africa in which the Group is operating

Outcome of the Committee's oversight in respect of risk and compliance:

The Committee concluded that it is satisfied with the effectiveness of the Group's risk and compliance management function in identifying, evaluating and mitigating issues which may have a material impact on the Group's ability to protect and create sustainable stakeholder value.

Policy on non-audit services

All non-audit services provided by the Group's external auditor are required to be approved by the Committee prior to the work being undertaken. All non-audit services undertaken during the FY24 were approved in accordance with this policy. EY did not provide non-audit services during FY23.

The nature and extent of non-audit services provided by the external auditor are reviewed to ensure that the fees for such services do not become so significant as to call into question their independence. In FY24, EY received R28 500 relating to agreed-upon non-audit procedures (0% of the audit fee).

Expertise and experience of the CFO and the finance function

The Committee considered the composition, experience, resources and skills of the Group finance function. The Committee is satisfied that Lerena Olivier has the appropriate expertise and experience for her continued appointment as CFO. In addition, the Committee is satisfied that the composition, experience and skills of the finance function meet the Group's requirements.

Legal requirements

The Committee complied with all applicable legal, regulatory and other responsibilities for FY24.

Internal financial controls

The Committee examined the effectiveness of internal financial controls to assess if there were any significant weaknesses in the design, implementation or execution of internal financial controls that could result in material financial loss, fraud, corruption or error.

No material matter has come to the attention of the Committee or the Board that has caused the directors to believe that the Group's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements. The Committee concluded that the design of internal financial controls was effective, notwithstanding the opportunity for improvement in certain areas of policy maintenance and implementation, and the Committee would continue to be vigilant in its oversight.

Combined assurance

The Committee closely monitored the relationship between external and internal assurance providers and the Group. It ensured that the Group's combined assurance model adequately addressed the Group's significant risks. The Committee was satisfied that the Group's combined assurance model had been effective in achieving transparent and accurate financial reporting, sound risk management and mitigation, and an effective level of residual risk.

King IV

The Group applies the King IV™ principles. The details will be reported in the Group's 2024 Integrated Annual Report, Corporate Governance Report and King IV application register, expected to be published by 30 June 2024.

Significant matters

The Committee considered the key audit matters reported in the external audit report on pages 8 to 13 of the Group Annual Financial Statements. After discussions with management and the external auditors, it is satisfied that the Group Annual Financial Statements appropriately address the critical judgements and key estimates pertaining to the key audit matters.

Annual Financial Statements

The Annual Financial Statements for the financial period ended 25 February 2024 were compiled under the supervision of the CFO, Lerena Olivier CA (SA).

The Committee reviewed the Consolidated Group and separate Company Annual Financial Statements for the financial period ended 25 February 2024. The Committee is of the opinion that, in all material respects, the financial statements comply with IFRS and the Companies Act and that they fairly present the financial position of the Group and Company for the 2024 financial period and the results of the operations and cash flows for the period then ended. The Committee recommended them for approval to the Board on 26 May 2024. The Committee reviewed and considered representations by management on the going concern statement for the Group and recommended the adoption of the going concern principle to the Board.

The 2024 Integrated Annual Report will be published in addition to these Annual Financial Statements.

Committee evaluation and re-election

The Committee's performance and effectiveness are assessed on an annual basis by the Board, assisted by the Nominations and Corporate Governance Committee. The Board's assessment was positive, with no concerns raised. The Board remains satisfied that the Committee has performed its duties effectively and that Committee members have the necessary skills and experience to discharge their duties effectively. Committee members will be put to shareholders for formal election at the 2024 AGM to be held later in the year.

Key focus areas for FY25

The Committee has set the following key areas of focus and monitoring:

- The Group's financial and operating performance under the new strategic turnaround plan
- The effectiveness of the Group's cost savings and efficiency initiatives
- Optimal capital allocation to advance business stability and prioritise investment returns
- Group liquidity and compliance with the terms and conditions of the Restructuring Support Agreement
- The successful implementation of the two-step Recapitalisation Plan including project risk management and statutory compliance
- Increased focus on emerging and accelerated risks, including increased cyber risk driven by the growth in online sales, and the potential for civil and labour unrest in South Africa
- Further progress in integrated reporting, including in ESG disclosures

The Committee is satisfied that it complied with, and discharged, all statutory duties in terms of section 94(7) of the Companies Act and the Listings Requirements, as well as with the functions and responsibilities assigned to it by the Board under its terms of reference and Committee mandate, for FY24.

Aboubakar Jakoet

Chair, Group Audit, Risk and Compliance Committee

26 May 2024

