AUDIT COMMITTEE REPORT

The Audit Committee (the committee) of The SPAR Group Limited presents the following report pursuant to the requirements of section 94(7)(f) of the Companies Act, No. 71 of 2008, as amended (the Companies Act) to shareholders for the 2019 financial year.

COMMITTEE GOVERNANCE

Composition

Members of the committee are appointed by shareholders on the recommendation of the nomination committee and the board. Shareholders will again be requested to approve the appointment of the committee members for the 2020 financial year at the company's 2020 AGM to be held on Tuesday, 11 February 2020.

Members' of the committee for the financial year under review were independent non-executive directors, Chris Wells (Chairman), Marang Mashologu, Harish Mehta and Andrew Waller.

The following changes are noted in respect of the committee for the 2020 financial year:

- Chris will retire as a non-executive director and member of the committee at the 2020 AGM
- Andrew has been nominated to succeed him as the chairman of the committee.

The independence and performance of the committee members were evaluated by the nomination committee and based on their recommendation, the board proposes the re-election of Marang, Harish and Andrew (Chairman) as the members of the committee to shareholders at the 2020 AGM. In addition, the board is satisfied that the committee as a whole has the necessary financial literacy, skills and experience to execute their duties effectively. Members' qualifications and experience are available in the online integrated report.

Meetings

The committee met formally three times during the financial year under review. Members' attendance at meetings is recorded in the online integrated report. Permanent invitees at committee meetings are the CEO, Group Financial Director, Group Internal Audit Manager, external auditor and the Company Secretary (who also acts as the secretary of the committee).

Evaluation of Committee

The committee conducted a self-assessment evaluation to measure its effectiveness and performance. There were no concerns raised with the functioning of the committee nor with the efficiency and competence of its members. The next evaluation will be undertaken in 2021.

Role and Responsibilities

The committee's roles and responsibilities are governed by its terms of reference as reviewed and approved annually by the board. The committee has specific statutory responsibilities to the shareholders of the company in terms of the Companies Act and assists the board by advising and making recommendations on financial reporting, internal financial controls, internal and external audit functions and regulatory compliance.

The committee receives feedback on all relevant matters in its terms of reference from the following committees:

- Risk Committee
- Social and Ethics Committee

The committee is satisfied that it has fulfilled its responsibilities in accordance with its terms of reference, a copy of which can be found online.

KEY FOCUS AREAS

External Auditor

The committee has primary responsibility for overseeing the relationship with, and the performance of, the external auditor, including making recommendations on their re-election and assessing their independence, as set out in the Companies Act.

PricewaterhouseCoopers Inc. (PwC) have been the company's appointed external auditor for two years, with Sharalene Randelhoff as the designated audit partner.

The committee assessed the suitability of PwC as the company's external auditor and Sharalene, as the designated audit partner for the 2020 financial year, in accordance with the appropriate audit quality indicators, including their independence against the criteria specified by the Independent Regulatory Board for Auditors, the South African Institute of Chartered Accountants, International regulatory bodies and the JSE Listings Requirements and have no concerns regarding their performance or independence. Accordingly, the committee recommended to the board, the re-election of PwC as external auditor and Sharalene Randelhoff as the designated audit partner for the 2020 financial year.

Sharalene will be required to rotate as the designated audit partner in 2023.

The committee determined the terms of engagement and fees paid to PwC, as disclosed in note 3 of the annual financial statements and the nature and extent of the non-audit services that PwC provide to the company, as disclosed in note 3 of the annual financial statements. The extent of non-audit services provided by PwC was immaterial and is continuously monitored, with no excessive engagement noted.

The chairman meets with the external auditor without management present to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum, with no concerns raised.

Non-audit services policy

The company has a clearly defined and strictly followed non-audit services policy, which was reviewed and approved by the board on 12 November 2019. The external auditor may only be considered as a supplier of such services where there is no alternative supplier for these services, there is no other commercially viable alternative or the non-audit services are related to and would add value to the external audit.

Significant matters

Key audit matters identified by the external auditors are detailed below and have been included in the report of the annual financial statements. These matters have been discussed and agreed with management and were presented to the committee.

Key audit matter	How our audit addressed the key audit matter
Valuation of the financial liability relating to TIL JV Ltd	
This key audit matter relates to the consolidated and separate financial statements Refer to the accounting policy note 1.19 on financial instruments and note 28 and 39 to the financial statements for the related disclosures. Included in the Group's net assets at year-end, are financial liabilities amounting to R2.2 billion (Company: R1.3 billion) which arose on previous acquisitions and relate to agreements to acquire the remaining shareholding from non-controlling shareholders at specified future dates. The first contractual repayment on the TIL JV Ltd financial liability, is scheduled for 31 December 2019 and is based on the actual results of the TIL JV Ltd Group for the 2019 financial year. This first repayment has been included in "Current portion of financial liabilities" under current liabilities. Management's valuation of the non-current financial liability involved the use of the key management judgement and assumptions in relation to the following: • the estimated future net profit after tax of the TIL JV Ltd Group for financial years 2020 and 2022, which represent the years during which the second and third contractual repayments will occur; and • the discount rate which is based on the cost of equity in respect of the Irish operations. We considered the valuation of the financial liability which arose on the acquisition of TIL JV Ltd (Incorporated in Ireland) to be a matter of most significance to the current year audit due to the magnitude of this financial liability (R1.3 billion) and the significant management estimation involved in its valuation.	We obtained an understanding of the methodology applied by management in performing the valuation of this financial liability and found this to be in line with the requirements of IFRS 13: Fair Value Measurement. We tested the mathematical accuracy of management's model and where applicable, we agreed the inputs used by management in the model to the contractual agreements. No material differences were noted. We assessed the ZAR/Euro exchange rate used by management in the valuation model by comparing the exchange rate to external sources. We found the exchange rate used by management to be reasonable. We compared the 2019 profit used by management in the computation of the current financial liability to the TIL JV Ltd Group 2019 actual profit and we found the 2019 profit used in management's computation to be in line with the actual profit achieved for the 2019 financial year. We assessed whether the estimated net profit after tax used for the years 2020 and 2022 were in line with the underlying assumptions included in TIL JV Ltd's most recently approved business plan. We found management's forecasts for future years to be in line with the approved business plan. In assessing the reasonableness of management's forecasts, we considered the level of precision with which management had historically prepared their forecasts by comparing them to actual performance. We found management's explanations to support the forecasts used in the model to be reasonable. We made use of our valuation expertise to assess the appropriateness of the discount rate applied by management. Our assessment regarding the discount rate included recalculating the inputs with reference to independent market data. We found the discount rate applied by management to be within a reasonable range.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses ("ECL") on financial assets	
This key audit matter relates to the consolidated and separate financial statements Refer to the accounting policy note 1.19 on financial instruments and note 39 to the financial statements for the related disclosures. Included in the Group's net assets at year-end, are financial assets of R15.1 billion (Company: R10.9 billion) which are accounted for in accordance with IFRS 9: Financial Instruments. The Group assesses the ECL associated with all financial assets measured at amortised cost and recognises an allowance for ECL for these financial assets. This key audit matter relates to the following financial assets: • Loans receivable, • Block discounting loans receivable, and • Trade and other receivables ECL on these financial assets are measured using either the general approach or the simplified approach. *General approach* The general approach was applied to determine the ECL on loans receivable (including the loan receivable from Piotr I Pawel Group), and block discounting loans receivable. The Group assesses, at the end of each reporting period, whether there has been a significant increase in credit risk since initial recognition. Where there has been no significant increase in credit risk, the Group recognises a twelve month ECL. Where there has been a significant increase in credit risk, the Group recognises a lifetime ECL. The measurement of the ECL under this approach reflects a probability weighted outcome, the time value of money and the best forward-looking economic information available to the Group. This incorporates the probability of default ("PD"), exposure at default ("EAD") and the loss given default ("LGD"). *Simplified approach: Provision matrix* This approach, which was applied to trade receivables, recognises a lifetime ECL. The provision matrix is based on historical credit loss experience, adjusted for forward-looking factors such as the inflation rate, fuel cost, prime rate and unemployment rate, specific to trade receivables and the economic environment. We determined the ECL on these financial assets to be a matter of most significance to our current year audit due to the following: • the first-time adoption of IFRS 9 by the Company and the Group; • the magnitude of the financial assets over which the ECL model is applied; and • the degree of judgement and estimation applied by management in determining the ECL.	We obtained an understanding of the methodology applied by management in performing the ECL computations on each class of financial assets and found this to be in line with the requirements of IFRS 9. We tested the mathematical accuracy of management's models and we found no material differences. *General approach* For loans receivable and block discounting loans receivable, we performed the following procedures: • We evaluated the assumptions used by management in their assessment of credit risk by reference to either payment history or counterparty forecast cash flows. We found management's assumptions to be reasonable. • For the loan receivable from Piotr I Pawel Group ("PIP"), we made use of our actuarial expertise to assess the appropriateness of the ECL calculated by management. Our assessment included evaluating, inter alia, the modelling methodologies, the loan staging assessment, the forward-looking information and assessing the reasonableness of the resultant PD, LGD and ECL percentages with reference to independent market data. We found the ECL calculated by management to be reasonable. *Simplified approach: Provision matrix* For trade receivables, we performed the following procedures: • We used past data to test the accuracy of the historical loss rates calculated by management. We found the historical loss rates to be reasonable. • We assessed the forward-looking assumptions used by management to adjust the historic loss rates with reference to independent market data. We found the assumptions used by management to be reasonable. We assessed the disclosure included in note 39 against the requirements of IFRS 9. We found the disclosure to be in line with the requirements of IFRS 9.

Annual Financial Statements

The committee reviewed the annual financial statements for the year ended 30 September 2019 and is of the view that in all material aspects, they comply with the relevant provisions of IFRS and the Companies Act. The committee also reviewed the 2019 Integrated Annual Report and recommended both to the board for approval. The board subsequently approved the annual financial statements and 2019 Integrated Annual Report, which will be tabled for discussion at the 2020 AGM.

Going Concern Status

The committee reviewed the solvency and liquidity assessment as part of the going concern status of the company and based on this detailed review, recommended to the board that the company adopt the going concern concept in preparation of the financial statements.

Internal audit

The South African internal audit function is independent and has the necessary standing and authority to enable it to discharge its duties. The Group Internal Audit Manager, Samesh Naidoo, and the Chairman of the committee meet on a regular basis to discuss internal audit's performance and any concerns.

The subsidiary businesses in Ireland and Switzerland do not have a dedicated internal audit function but have instructed external audit to extend their procedures to confirm that nothing has come to their attention that the control environment is not operating effectively. This arrangement is being reviewed.

During the financial year under review, the committee:

- approved the internal audit plan;
- reviewed the internal audit charter and recommended to the board for approval;
- satisfied itself that the Group Internal Audit Manager was competent and possessed the appropriate expertise and experience to act in this capacity;
- confirmed that the company's internal audit function met its objectives and that adequate procedures were in place to ensure that the company complies with its legal, regulatory and other responsibilities; and
- ensured that appropriate financial reporting procedures exist and were working.

The committee is of the opinion that the group's system of internal controls and risk management is effective and that the internal financial controls form a sound basis for the preparation of reliable financial statements. This opinion is based on the results of the formal documented review of the company's system of internal controls and risk management – including the design, implementation and effectiveness of internal financial controls conducted by the internal audit function during the 2019 financial year – and considering information and explanations given by management and discussions with the external auditor on the results of the external audit. The committee's opinion is supported by the board.

The Internal Audit team utilises data analytics to guide sample selection and enhance the overall audit coverage. Several data scripts have been developed with the assistance of the SPAR IT Department based on Internal Audit's requirements. Internal Audit will continue to engage with the SPAR IT Department to develop additional scripts and embed data analytics into the audit methodology.

Group financial director and finance function

The committee is satisfied that Mark Godfrey has the appropriate expertise and experience to meet the responsibilities of his appointed position as the Group Financial Director. His qualifications and experience are available in the online integrated report.

The committee considered the appropriateness of the expertise and adequacy of resources of the group's finance function and was satisfied with the experience of the senior members of management responsible for the group function.

Risk management

The board has delegated the oversight of risk governance, technology and information governance and compliance governance to the risk committee. Chris, the chairman of this committee, is also the Chairman of the Risk Committee and ensures that information relevant to the Risk Committee is transferred and shared regularly with this committee.

The committee accordingly fulfils an overview role regarding financial reporting risks, internal financial controls, taxation risks, compliance and regulatory risks, risk appetite and tolerance, fraud risk (as it relates to financial reporting) and information technology risk (as it relates to financial reporting), and based on the processes and assurances obtained, the committee is satisfied that these areas have been appropriately addressed.

Combined assurance

The integrated assurance policy and framework was reviewed and approved by the board on 12 August 2019 and is in the process of being implemented. The implementation of the framework will help support the corporate governance guidelines to provide appropriate assurance and, in addition, evidence of integrated/combined assurance.

During the financial year under review both a Group Tax Strategy and Policy were presented to the committee for comment with final approval to follow. The Group Tax Strategy outlines the framework by which tax obligations are met from an operational and risk management perspective and is aligned with the group's existing strategies, policies and overall purpose. The group's Approach to Tax will be included in the online report reflecting the Total Tax Contribution per the tax jurisdictions that the group operates in.

In addition to the key areas of focus detailed above, the committee, during the 2019 financial year, reviewed the:

- unaudited interim results report and associated reports and announcements;
- summarised information issued to shareholders;
- appropriateness of the accounting policies and financial statement disclosures;
- JSE proactive monitoring of financial statements report;

- JSE preliminary findings of its thematic review for compliance with IFRS 9 and 15;
- changes to the JSE Listings Requirements which pertain to the committee's responsibilities;
- report on the impact of the implementation of IFRS 16, including draft disclosure to shareholders included in the 2019 annual financial statements;
- company's banking facilities;
- unbundling of the SPAR BBBEE Share Schemes;
- establishment of an international investment holding company to house the company's offshore investments;
- 2020 budget guidelines and assumptions;
- property lease arrangements entered into by the company;
- policies which fall under the committee's control and oversight. The group's delegation of authority policy was reviewed and recommended to the board for approval.
- external auditor's audit report and key audit matters;
- internal auditor's report and key audit matters and findings;
- SPAR Ireland and Switzerland's internal audit process; and
- whistle-blowing and industry complaints.

Thanks go to the members of the committee for their dedicated and constructive contributions to the Committee's functioning.

Chris Wells
Chairman of the Audit Committee

12 November 2019