

AUDIT AND RISK COMMITTEE REPORT



Timothy Ross

INTRODUCTION

The Audit and Risk Committee has pleasure in submitting its report for the year ended 31 December 2016 in compliance with section 94(7) of the Companies Act.

The Audit and Risk Committee acts for the Company and all its subsidiaries, and is an independent entity accountable to the Board. It operates within a documented charter and complies with all relevant legislation, regulation and governance codes and executes its duties in terms of the requirements of King III.

The committee's terms of reference were approved by the Board and are reviewed annually.

COMPOSITION

The Audit and Risk Committee comprises three non-executive directors, all of whom are independent. Tim Ross is the Chairman and Neo Dongwana and Andrew Thompson are the current members. The CEO, the CFO, the Head of ICT, the Group Risk and Sustainability Manager, a representative of KPMG, the independent Internal Auditor, and a representative of Deloitte & Touche, the independent External Auditor, all attend meetings by invitation.

The committee members are appointed annually by the shareholders at the Annual General Meeting. Refer to ordinary resolution numbers 5, 6 and 7 in the Notice of Annual General Meeting. Biographical details of the committee members are provided on pages 38 and 39.

MEETINGS

The Audit and Risk Committee held four meetings during the year. Members attended all meetings of the committee during the year, as per page 43 of this report.

ROLE AND FUNCTION

The Audit and Risk Committee attended to the following during the year:

External Auditors

The committee reviewed the independence of Deloitte & Touche as the Group's External Auditor with Mark Holme as the independent individual registered auditor. Before recommending the re-election of Deloitte & Touche to the Board and being proposed to shareholders, the committee satisfied itself that Deloitte & Touche is independent.

Ordinary resolution number 4, as set out in the Notice of Annual General Meeting on page 105, proposes the re-appointment of Deloitte & Touche as External Auditor and Mark Holme as the independent individual registered auditor.

Independence of External Auditor

This assessment was made after considering the following:

- Confirmation from the External Auditor that they, or their immediate family, do not hold any significant direct or indirect financial interest or have any material business relationship with Mpact. The External Auditor also confirmed that they have internal monitoring procedures to ensure their independence.
- The auditors do not, other than in their capacity as External Auditor or rendering permitted non-audit services, receive any remuneration or other benefits from Mpact.
- The auditor's independence was not impaired by the non-audit work performed, having regard to the quantum of audit fees relative to the total fee based and the nature of the non-audit work undertaken.
- The auditor's independence was not prejudiced as a result of any previous appointment as auditor. In addition, an audit partner rotation process is in place in accordance with the relevant legal and regulatory requirements.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

- The criteria specified for independence by the Independent Regulatory Board for Auditors.
- The audit firm and the designated auditor are accredited with the JSE.

The committee confirms that the External Auditor has functioned in accordance with its terms of reference for the 2016 financial year.

External Auditor's fees

The committee:

- Approved, in consultation with management, the audit fee and engagement terms for the External Auditor for the 2016 financial year.
- Reviewed and approved the non-audit services fees for the year under review and ensured that the fees were within limit and in line with the non-audit service policy.
- Determined the nature and extent of allowable non-audit services and approved the contract terms for the provision of non-audit services.

External Auditor's performance

The committee:

- Reviewed and approved the External Audit plan, ensuring that material risk areas were included and that coverage of the significant business processes was acceptable.
- Reviewed the External Audit reports and management's response, considered their effect on the financial statements and internal financial control.

Financial statements

The committee reviewed the interim results and year-end financial statements, including the public announcements of the Group's financial results, and made recommendations to the Board for their approval. In the course of its review, the committee:

- took appropriate steps to ensure that the financial statements were prepared in accordance with IFRS;
- considered the appropriateness of accounting policies and disclosures made; and
- completed a detailed review of the going concern assumption, confirming that it was appropriate in the preparation of the financial statements.

The committee was not required to deal with any complaints relating to accounting practices or Internal Audit, nor to the content or audit of the financial statements, nor internal financial controls and related matters.

Significant areas of judgement

Key audit matters are those matters which are arrived at and disclosed in the Annual Financial Statements using significant judgement.

The Committee has provided stakeholders with further explanations in response to the key matters raised in the Independent Auditor's Report. The detailed information forms part of the Audit and Risk Committee Report included in the full Annual Financial Statements which is available on the Group's website. 

Internal Audit

The committee:

- Reviewed and approved the existing Internal Audit charter, which ensures that the Group's Internal Audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to discharge its duties.
- Satisfied itself of the credibility, independence and objectivity of the Internal Audit function.

- Ensured that Internal Audit had direct access to the committee, primarily through the committee's Chairman.
- Reviewed and approved the annual Internal Audit plan, ensuring that material risk areas were included and that the coverage of significant business processes was acceptable.
- Reviewed the quarterly Internal Audit reports, covering the effectiveness of internal control, material fraud incidents and material non-compliance with Mpack's policies and procedures. The committee is advised of all internal control developments and advised of any material losses, with none being reported during the year.
- Considered and reviewed with management and Internal Auditors, any significant findings and management responses thereto in relation to reliable financial reporting, corporate governance and effective internal control to ensure appropriate action is taken.
- The Internal Audit function provided a written assessment of the effectiveness of the Company's system of internal controls and confirmed that based on their results of work undertaken, they provided reasonable assurance regarding adequacy and effectiveness of systems of internal control.

The committee has reviewed the independence of KPMG as the Group's Internal Auditor and is satisfied that KPMG is independent.

Internal financial control and compliance

- Reviewed and approved the existing treasury policy and reviewed the quarterly treasury reports prepared by management.
- Reviewed the quarterly legal and regulatory reports setting out the latest legislative and regulatory developments impacting the Group.
- Reviewed the quarterly report on taxation.
- Reviewed IT reports.
- Considered and, where appropriate, made recommendations on internal financial control.
- Monitored the outsourced Internal Audit service provided by KPMG Internal Audit, Risk and Compliance Services.

KPMG performed the Internal Audit for the year ended 31 December 2016 and provided a written assessment of the effectiveness of Mpack's system of internal controls. A combined assurance model and risk management processes are a work in progress; risk management will be assessed as the function matures. The Audit and Risk Committee considered the comments in the audit reports issued by KPMG on the audits conducted, and together with other information available from management and the year-end External Audit reports, and determined that there were no material weaknesses in internal control and risk management. On this basis, the Audit and Risk Committee has made a recommendation to the Board on the effectiveness of the system of internal controls for inclusion in the directors' responsibility statement.

Risk management

Management is continuously developing and enhancing the Group's risk and control procedures to improve the mechanisms for identifying, assessing and monitoring risks given that effective risk management is integral to the Group's objective of consistently adding value to the business. The Board approves strategies and budgets and monitors progress against the budget. It also considers the identified business risks.

Risk management is addressed in the areas of physical and operational risks, human resource risks, technology risks, business continuity and disaster recovery risks, credit and market risks and compliance risks.

The Group has implemented several policies and procedures to manage its governance, operations and information systems with regard to the:

- reliability and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding of assets; and
- compliance with laws, regulations and contracts.

Risks are periodically reviewed and updated on a regular basis. The risks are outlined in detail on pages 12 to 15 of this Integrated Report.

INTEGRATED REPORT

The committee fulfils an oversight role regarding our report and the reporting process. Accordingly, it has:

- Considered the Integrated Report and has assessed the consistency with operational, financial and other information known to the Audit and Risk Committee members, and for consistency with the Annual Financial Statements. The committee is satisfied that the Integrated Report is materially accurate, complete and reliable and consistent with the Annual Financial Statements.
- The committee has, at its meeting held on 1 March 2017, recommended the Integrated Report for the year ended 31 December 2016 for approval by the Board.

GOVERNANCE

The Board has assigned oversight of the risk management function to the committee, which has an oversight role with respect to financial reporting risks arising from internal financial controls, fraud and IT risks.

In line with the terms of the JSE Listings Requirements, the committee is satisfied that Brett Clark has the appropriate expertise and experience to meet the responsibilities of his appointed position as CFO as required by the JSE.

The committee is satisfied:

- that the resources within the finance function are adequate to provide the necessary support to the CFO; and
- with the expertise and experience of the Group Financial Manager.

In making these assessments, the committee has obtained feedback from the External and Internal Auditors.

Based on the processes and assurances obtained, the committee believes that the accounting practices are effective.

ASSURANCE

The Audit and Risk Committee confirmed that they were prudent in exercising their duties of care and skill and they have taken reasonable steps to ensure that they performed their duties in accordance with the mandate.

On behalf of the Audit and Risk Committee

Tim Ross

Audit and Risk Committee Chairman

1 March 2017