

AUDIT COMMITTEE REPORT

The Audit Committee is pleased to present its report for the financial year ended 31 March 2017 to the shareholders of TFG.

This report is in compliance with the requirements of the Companies Act of South Africa, No. 71 of 2008, as amended (the Act), and the King Code of Governance for South Africa 2009 (King III).

AUDIT COMMITTEE MANDATE

The committee is governed by a formal Audit Committee charter that has recently been reviewed and incorporates all the requirements of the Act. This charter guides the committee in terms of its objectives, authority and responsibilities, both statutory and those assigned by the Supervisory Board.

The Audit Committee recognises its important role as part of the risk management and corporate governance processes and procedures of TFG.

DUTIES OF THE COMMITTEE

The duties of the Audit Committee are, *inter alia*:

Statutory duties as prescribed in the Act

General

- to receive and deal appropriately with any concerns or complaints (whether internal, external or on its own initiative) relating to the accounting practices and internal audit of TFG, the content or auditing of TFG's financial statements, the internal financial controls of TFG or any related matter.

External auditors

- to evaluate the independence, effectiveness and performance of the external auditors;
- to obtain assurance from the auditors that adequate accounting records are being maintained and that appropriate accounting policies are in place, which have been consistently applied;
- to evaluate the appointment of the external auditors on an annual basis and to ensure that such appointment is in terms of the provisions of the Act and any other legislation;
- to approve the audit fee and fees in respect of any non-audit services; and
- to determine the nature and extent of any non-audit services the auditors may provide to the Group and to pre-approve proposed agreements for non-audit services.

Financial results

- to make submissions to the Supervisory Board on any matter concerning the Group's accounting policies, financial controls, records and reporting; and
- to provide, as part of the integrated annual report and annual financial statements, a report by the Audit Committee.

Duties assigned and delegated by the Supervisory Board

General

- to ensure that the respective roles and functions of external audit and internal audit are sufficiently clarified and coordinated and that the combined assurance received is appropriate to address all significant risks; and
- to assist the Supervisory Board in carrying out its risk management and IT responsibilities.

External auditors

- to consider and respond to any questions from the Supervisory Board and shareholders regarding the resignation or dismissal of the external auditors, if necessary;
- to review and approve the external audit plan; and
- to ensure that the scope of the external audit has no limitations imposed by executive management and that there is no impairment on its independence.

Internal control and internal audit

- to review the effectiveness of the Group's systems of internal control, including internal financial control and risk management, and to ensure that effective internal control systems are maintained;
- to ensure that written representations on internal controls are submitted to the Supervisory Board annually by all divisional managing directors and general managers (these being representations that provide assurance on the adequacy and effectiveness of the Group's systems of internal control);
- to monitor and supervise the effective functioning and performance of the internal audit function;
- to review and approve the annual internal audit plan and the internal audit charter;
- to ensure that the scope of the internal audit function has no limitations imposed by executive management and that there is no impairment on its independence; and
- to review that appropriate internal controls and an internal audit plan are prepared to cover the TFG International operations.

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Finance function

- to consider the appropriateness of the expertise and experience of the Chief Financial Officer; and
- to satisfy itself with the expertise, resources and experience of the finance function.

Financial results

- to consider any accounting treatments, significant unusual transactions or accounting judgements and estimates that could be contentious;
- to review executive management's assessment of going concern and to make a recommendation to the Supervisory Board that the going concern concept be adopted by the Group; and

- to review the integrated annual report, as well as the annual financial statements, interim reports, preliminary reports or other financial information prior to submission and approval by the Supervisory Board.

COMMITTEE COMPOSITION AND ATTENDANCE AT MEETINGS

The committee comprised six independent non-executive directors and the Chairman of the committee is not the Chairman of the Supervisory Board. The following directors served on the committee during the year under review:

NAME OF MEMBER	DATE APPOINTED TO COMMITTEE
F Abrahams	1 October 2016
S E Abrahams	29 January 1999
D Friedland	1 April 2016
B L M Makgabo-Fiskerstrand	1 October 2015
E Oblowitz	1 October 2010
N V Simamane	24 February 2010

COMMITTEE EVALUATION

The annual Supervisory Board evaluation (which includes an evaluation of all subcommittees) in respect of the previous calendar year was completed last year. This evaluation formally assessed the performance of Audit Committee members during the past year, as well as their independence in terms of the independence requirements of King III and the Act. It is noted that all members of the committee continue to meet the independence requirements.

ELECTION OF COMMITTEE MEMBERS

The following members made themselves available for election to the committee. Such election was recommended by the Nomination Committee and will be proposed to shareholders at the upcoming annual general meeting:

F Abrahams
S E Abrahams
D Friedland
B L M Makgabo-Fiskerstrand
E Oblowitz
N V Simamane



The committee held three formal meetings during the 2017 financial year (refer to page 95 for details on attendance). In addition, the Chairman held *ad hoc* meetings with executive and senior management, the Head of Internal Audit and the external auditors from time to time. The committee considered the draft interim and annual financial reports prepared by executive and senior management and recommended the adoption of these reports to the Supervisory Board subject to certain amendments. The Chairman provided written reports to the Supervisory Board that summarise the committee's findings and recommendations.

Details of fees paid to committee members appear in note 34 of the annual financial statements.

The Chief Executive Officer, the Chief Financial Officer, the Head of Internal Audit, the Head of Enterprise Risk Management, the Company Secretary and the external audit partner and staff attended meetings of the committee by regular invitation. Additional attendees, including Mr R Stein, a non-executive director, and members of executive management, are invited to attend meetings on an *ad hoc* basis. The Chairman of the Group has an open invitation to attend meetings of the Audit Committee.

COMMITTEE FUNCTIONING

The committee typically meets three times a year, with the main focus of each respective meeting being as follows:

- Consideration of control risks and risk management (typically in March each year)
- Approval of annual results (typically in May each year)
- Approval of interim results (typically in November each year)

Independently of executive management, members of the committee meet separately with the Head of Internal Audit and the external auditors respectively. The Head of Internal Audit reports directly to the Audit Committee.

Meeting dates and topics are agreed well in advance each year. Each meeting is preceded by the distribution of an Audit Committee pack to each attendee, comprising, *inter alia*:

- a detailed agenda;
- minutes of the previous meeting;
- a report by the external auditors; and
- written reports by executive and senior management including:
 - compliance and legal,
 - IT governance,
 - internal audit,
 - loss statistics, and
 - fraud.

The Chairman of this committee has an open invitation to attend meetings of the Risk Committee.

SPECIFIC RESPONSIBILITIES

The committee confirms that it has carried out its functions in terms of the Audit Committee charter and section 94(7) of the Act, by:

- confirming the nomination of KPMG Inc. as the Group's registered auditors for the year ending 31 March 2018 and being satisfied that they are independent of the company;
- approving the terms of engagement and fees to be paid to KPMG Inc.;
- ensuring that the appointment of KPMG Inc. complies with the provisions of the Act;
- determining the nature and extent of any non-audit services, which the external auditors provide to the company or a related company;
- pre-approving proposed agreements with KPMG Inc. for the provision of any non-audit services;
- preparing this report for inclusion in the annual financial statements and in the integrated annual report;

- receiving and dealing appropriately with any relevant concerns or complaints;
- making submissions to the Supervisory Board on any matter concerning the company's accounting policies, financial controls, records and reporting; and
- performing other oversight functions as determined by the Supervisory Board.

INTERNAL FINANCIAL CONTROL AND INTERNAL AUDIT

Based on the assessment of the system of internal financial control conducted by internal audit, as well as information and explanations given by executive and senior management and discussions held with the external auditors on the results of their audit, the committee is of the opinion that TFG's system of internal financial control is effective and forms a basis for the preparation of reliable financial statements in respect of the year under review.

In addition, during the 2017 financial year, the committee was not made aware of any:

- material breaches of any laws or regulations; or
- material breaches of internal controls or procedures.

A major development introduced during the current financial year from an internal audit perspective has been the approach to analytically examine and interrogate the store data in an attempt to highlight weaknesses. This work has involved the development of IT software to enable intelligent scrutiny of stores' data. Although this is still work in progress, the Audit Committee, the Risk Committee and senior management believe this initiative is essential to achieve better coverage of critical issues, particularly given the sizeable growth in new stores that has occurred both in Southern Africa and via our recent international acquisitions.

JSE MONITORING REVIEW

During the year, TFG was selected by the JSE as one of 56 listed companies subject to proactive monitoring of our financial statements. Although this was a challenging process for TFG from a cost, resource and timing perspective, we support the JSE's intent to ensure high quality disclosure which provides meaningful information to the users of our reports. No material concerns were raised, confirming the integrity of the Group's financial information.

RISK MANAGEMENT

While the Supervisory Board is ultimately responsible for the maintenance of an effective risk management process, the committee, together with the Risk Committee, assists the Supervisory Board in the assessment of the adequacy of the risk management process. The Chairman of this committee has an open

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invitation to Risk Committee meetings to ensure that relevant information is regularly shared. The committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk as it relates to financial reporting and information technology risks as they relate to financial reporting.

As reported last year, the continued cooperation with the Risk Committee resulted in further clarification and delineation of the roles and responsibilities of both committees. The strategies adopted by each committee ensure timely review of any internal control weakness identified by any of the assurance providers. In addition, there were significant improvements in the development of Enterprise Risk Management (ERM) methodologies, which will further enhance the Group's risk management coverage and focus.

Further details on the risk management approach and process are included in the Risk Committee report, which appears on page 116.



PHASE EIGHT AND WHISTLES

Various workshops were arranged and will continue to be convened with the object of fully integrating the Phase Eight and Whistles operations into the overall risk management framework of the Group. Internal audit drew up an audit plan to cover the major risks identified and audits were conducted to cover those risks. No major concerns surfaced from their initial audit work, although it must be appreciated that it is still work in progress to achieve full integration into the Group's risk management framework.

The focus for the 2017 year end was directed at verifying the carrying values of stock and trade debtors. Both internal and external audit provided the Audit Committee with positive reports on these significant asset classes.



THE FINANCIAL AND BUSINESS ENVIRONMENT

As presented in the previous years' integrated annual reports, the concerns expressed in this report that relate to the financial and business environment remain relevant and are accordingly presented in this report once again.

The South African political turmoil that triggered the uncertainty in December 2015 caused by the "ins and outs" of finance ministers, the lack of GDP growth and

hence the inability to increase job creation, the increased regulatory landscape and intermittent interest rate increases all put our credit customers under immense pressure. Regrettably, the political uncertainty that started in the previous financial year has continued. The recent major cabinet reshuffle resulted in two of the rating agencies downgrading South Africa to "junk status", which is a tragedy in itself. Despite this, it is pleasing to report that, contrary to the unstable and unfavourable macroeconomic environment, TFG in South Africa achieved an improvement in bad debt statistics. This is as a result of a concerted effort to be vigilant to trends and not to attempt to increase customer numbers by lowering the credit granting criteria. Going forward, the Audit Committee will continue to focus on the ability of the Group to curtail bad debts. Supported by an in-depth review undertaken by the external auditors, I can confirm that, in the opinion of the Audit Committee, the provision for doubtful debts is adequate to sustain the year-end carrying value of trade receivables.

As reported last year, executive and senior management has continued with the strategy of negotiating more favourable terms for future funding requirements by having an improved balance among short-term, medium-term and longer-term facilities. Although there had always been significant funding headroom, the quality of the headroom is currently much improved.

The Group continues to place importance on IT risk management and consistently reviews the measures to curb the threat of cybercrime and IT fraud in general. The governance over the IT support system is considered to be best of breed and complies with the recommendations contained in King III.

Regrettably, the Group continues to suffer from ever-increasing financial loss arising from increased levels of crime-related incidents. Senior management continues to explore ways to reduce or curtail these operating losses. Continuous enhancements to the specialist ERM division, which has also been bolstered by the hiring of a forensics and security expert, are some of the initiatives being introduced to examine ways to make our stores, distribution centres, etc. more secure. The major contributor to increased losses being incurred has arisen from a spate of armed robberies.

EXTERNAL AUDITORS

The Group's external auditors are KPMG Inc. and the designated partner is Mr P Farrand. KPMG Inc. is afforded unrestricted access to the Group's records and management, and presents any significant issues arising from the annual audit to the committee. In addition, Mr P Farrand, where necessary, raises matters of concern directly with the Chairman of the committee.

The committee gave due consideration to the independence of the external auditors and is satisfied that KPMG Inc. is independent of the Group and executive and senior management and therefore able to express an independent opinion on the Group's annual financial statements.

The committee nominated, for approval at the annual general meeting, KPMG Inc. as the external auditors and Mr P Farrand as designated auditor for the 2018 financial year, having satisfied itself that the audit firm and designated audit partner are accredited by the JSE. It is a JSE requirement that both the designated auditor and audit firm are accredited.

FINANCIAL STATEMENTS

The committee reviewed the financial statements of the Group and is satisfied that they comply with International Financial Reporting Standards (IFRS) and the requirements of the Act of South Africa.

In addition, the committee reviewed executive management's assessment of going concern and recommended to the Supervisory Board that the going concern concept be adopted by TFG.

INTEGRATED ANNUAL REPORT

The committee fulfils an oversight role in respect of TFG's integrated annual report. In this regard, the committee gave due consideration to the need for assurance on the sustainability information contained in this report and concluded that obtaining independent assurance would not be beneficial to stakeholders.

The committee considered the sustainability information as disclosed in the integrated annual report, assessed its consistency with the annual financial statements and sustainability overview, and is satisfied that the sustainability information is in no way contradictory to that disclosed in the annual financial statements.

Although this integrated annual report has been prepared in compliance with the code and principles of King III, the committee has reviewed the changes required by King IV and will incorporate these in the preparation of next year's integrated annual report. In essence, it should be pointed out that TFG will need to make very few changes as most of the King IV principles are already in place.

The committee has also been receiving regular reports from TFG Finance and Advisory on TFG's readiness to introduce the substantial changes in accounting that will result from the introduction of IFRS 9, 15 and 16 over the next few years. It is confidently anticipated that TFG will be ready to meet the timetables for the introduction of all these revised accounting standards.

EXPERTISE OF FINANCIAL DIRECTOR AND FINANCE FUNCTION

The committee considers the appropriateness of the expertise and experience of the Chief Financial Officer and finance function on an annual basis.

In respect of the above requirement, the committee believes that Mr A E Thunström, the Chief Financial Officer, possesses the appropriate expertise and experience to meet his responsibilities in that position.

The committee further considers that the expertise, resources and experience of the finance function are appropriate based on the nature, complexity and size of the Group's operations.

APPROVAL

The committee recommended the approval of the annual financial statements and the integrated annual report to the Supervisory Board.

S E Abrahams

Chairman: Audit Committee

29 June 2017