

# Audit and Risk Committee report

This report is provided by the Audit Committee in respect of the 15-month financial period of Ecsponent Limited ("Ecsponent") and its subsidiaries ended 30 June 2018.

The Audit and Risk Committee is constituted as a delegated board committee with duties assigned by the Board in accordance with the King IV, the Companies Act and the JSE Listing Requirements.

## Members of the Audit and Risk Committee

The members of the Audit and Risk Committee are all independent non-executive directors during the financial period and up to date of this report. The committee comprise of:

Member	Function	Date of the appointment	Attendance of committee meetings during the period under review
Brandon Topham	Chairman	November 2010	100%
Keith Rayner	Member	January 2011	100%
Willem Oberholzer	Member	March 2017	100%



Biographies of the committee members are available on the company's website at [www.ecsponentlimited.com/leadership-team/](http://www.ecsponentlimited.com/leadership-team/)

The remaining directors are invited to attend the committee meetings.

The board has approved the committee terms of reference and is satisfied that the members thereof have the required knowledge and experience as set out in Section 94(5) of the Companies Act 71 of 2008 ("the Companies Act") and Regulation 42 of the Companies Regulations, 2011.

The Audit Committee performs the duties laid upon it by Section 94(7) of the Companies Act by holding meetings with the key role players on a regular basis and by the unrestricted access to the external auditors.

The committee held four scheduled meetings during the financial period and all the committee members attended all meetings.

The committee has an independent role with accountability to both the board and shareholders. The committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

## Responsibilities

The committee's responsibilities include the statutory duties prescribed by the Companies Act, activities recommended by King IV as well as additional responsibilities assigned by the board. The board has established and maintains internal controls and procedures, which are reviewed on a regular basis. These are designed to manage the risk of business failures and to provide reasonable assurance against such failures. However, this is not a guarantee that such risks are eliminated.

It is the duty of the committee, inter alia, to monitor and review:

- the appointment of external auditors and review of reports;
- evaluation of the performance of the financial director (FD);
- the governance of information technology (IT) and the effectiveness of the Group's information systems;
- interim and annual financial and operating reports, the audited consolidated annual financial statements and all other distributed financial documents;
- accounting policies of the Group and proposed revisions;

- compliance with applicable legislation, requirements of appropriate regulatory authorities and Ecsponent's Code of Ethics;
- the integrity of the annual financial report and associated reports (by ensuring that its content is reliable and recommending it to the board for approval);
- policies and procedures for preventing and detecting fraud;
- approve and periodically review policies and plans for risk management to enhance the Group's ability to achieve its strategic objectives; and
- oversee the operation of the Group's risk management framework, which shall be commensurate with the structure, risk profile, complexity, activities, and size of the Group, including:
  - policies and procedures establishing risk management governance, risk management procedures, and risk control infrastructure for global operations; and
  - processes and systems for implementing and monitoring compliance with such policies and procedures, including processes and systems to:
    - Identify and report risks and risk management deficiencies, including emerging risks, and ensure effective and timely implementation of actions to address emerging risks and risk management deficiencies for the Group's operations;
    - Establish managerial and employee responsibility for risk management; and
    - Ensure the independence of the risk management function.

The auditors have unrestricted access to the committee, the committee chairman and the

chairman of the board, ensuring that auditors are able to maintain their independence. The external auditors attended the audit and risk committee meetings by invitation. The auditors attend the company's annual general meeting ("AGM") where the annual financial statements are presented, in order to answer any questions relevant to the audit of the financial statements.

## External auditor review

The company is required in accordance with section 90(1) of the Companies Act to appoint an external audit firm and designated audit partner that is compliant with section 90(2) of the Companies Act and JSE Listings Requirements, which appointment must be approved by shareholders at the company's AGM.

Accordingly, in compliance with the Companies Act and paragraph 3.84(g)(iii) of the JSE Listings Requirements, the committee assessed the suitability for re-appointment of the current appointed audit firm, being Nexia SAB&T and the designated auditor, being Tertius de Kock ("Auditor Suitability Review").

The committee examined and reviewed:

- The results of the most recent Independent Regulatory Board of Auditors (IRBA), International Standard on Quality Control (ISQC) 1, engagement inspection of Nexia SAB&T and all audit engagement partners involved with the Ecsponent group audit, including the designated individual auditor;
- Confirmed the firm's ongoing registration with the Public Company Accounting Oversight Board (PCAOB); and
- A summary and results of any legal and disciplinary proceedings that may have



been concluded within the past seven years, instituted in terms of any legislation or by any professional body of which the audit firm and/or designated auditor are a member or regulator to whom they are accountable, including where the matter is settled by consent order or payment of a fine.

- As part of the Auditor Suitability Review, the committee met with Nexia SAB&T's chief executive officer and the individual auditor responsible for the Ecsponent audit to deal with the matters arising from the review.

Based on the results of the Auditor Suitability Review and a review of the independence of Nexia SAB&T and the designated individual auditor, the committee is satisfied that there are no current material matters that have not been addressed by Nexia SAB&T, and accordingly recommends that Nexia SAB&T be re-appointed as the auditors of the company and Tertius de Kock be re-appointed as the designated individual auditor. The committee has satisfied itself that both Nexia SAB&T and Tertius de Kock are accredited in terms of the JSE Listings Requirements. The board concurred with the recommendation and has further recommended to shareholders the re-appointment as recorded in the notice of AGM.

In addition, the committee has recommended to the board that in order to further improve the governance relating to the appointment of an audit firm, that such appointment be subject to a comprehensive review process every five years.

## Auditor independence and fees

The committee has reviewed and assessed the independence of the external auditor and has confirmed in writing that the criteria for independence, as set out in the rules of IRBA and international bodies, have been followed. The committee is satisfied that Nexia SAB&T is independent of the Group.

The committee also reviewed and confirms that it is satisfied that the external audit firm and designated audit partner have the necessary independence, experience, qualifications and skills, and that audit and other fees were reviewed and approved.

The committee determines the nature and extent of non-audit services that the firm can provide and pre-approves all permitted non-audit assignments by the Group's independent auditor. The external auditor did perform non-audit services to the Group during the accounting period in that it served and performed functions to the Group by acting as the reporting accountant in respect of corporate actions. All non-audit services are approved by the committee.

The committee approves the annual audit plan presented by the external auditors. The audit plan provides the committee with the necessary assurance on risk management, internal control environments and IT governance.

## Annual financial statements

The committee reviewed the external audit scope, plans and findings, as well as management reports in order to determine the effectiveness of management systems and internal controls during the year. The committee continued to monitor key risks identified and their mitigation and how subsidiaries are performing to achieve the Group's strategy.

The committee reviewed the following:

- the quality and integrity of the integrated report;
- the financial statements and announcements in respect of the results;
- the appointment, remuneration, performance and independence of the external audit and the audit process, including the approval of non-audit services by the external auditor;
- the effectiveness of risk management and controls;
- internal financial controls and systems;
- sustainability issues;
- IT governance; and
- compliance governance.

The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors considered internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. The audit included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Committee has reviewed and is satisfied the accounting policies and financial statements of the Group are appropriate and comply with IFRS, the JSE Listings Requirements and the requirements of the Companies Act.

The valuation of loans and receivables and the other financial assets were considered significant audit matters by the Committee.

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**“The audit included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.”**

## Committee statement

After review and consideration of feedback received from management and the external auditors, the committee has resolved that the financial records may be relied upon as the basis for preparation of the audited consolidated annual financial statements.

The committee has considered and discussed the audited annual financial statements and associated reports with both management and the external auditors. During this process, the committee inter alia:

- evaluated significant judgements and reporting decisions;
- determined that the going-concern basis of reporting is appropriate;
- evaluated the material factors and risks that could impact on the annual financial report and associated reports;
- evaluated the completeness of the financial and sustainability discussion and
- disclosures, and is satisfied that the Ecsponent group has established appropriate financial reporting procedures and that those procedures are operating in accordance with paragraph 3.84(g)(ii) the JSE Listings Requirements; and
- discussed the treatment of significant and unusual transactions with management and the external auditors.

The committee is satisfied that the expertise and experience of the chief financial officer is appropriate to meet the responsibilities of the position. This is based on the qualifications, levels of experience, and the board's assessment of the financial knowledge of the chief financial officer. The committee is also satisfied as to the appropriateness, expertise and adequacy of resources of the finance function and the experience of senior members of management responsible for the finance function.

The Group has internal controls and systems designed to provide assurance as to the reliability and integrity of the financial statements. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives. The committee considers that the audited annual financial statements comply in all material respects with the statutory requirements of the various laws and regulations governing disclosure and reporting of the audited annual financial statements and that the audited annual financial statements comply in all material respects with IFRS, the SAICA Financial Reporting Guides and Financial Reporting Pronouncements, as well as the requirements of the Companies Act and the JSE Listings Requirements. The committee has recommended to the board that the audited annual financial statements be adopted and approved by the board.

On behalf of the Audit and Risk Committee



**Brandon Topham**

Chairman Audit and Risk Committee  
04 October 2018

# Independent Auditors' report

**To the shareholders of Ecsponent Limited.  
Report on the audit of the consolidated and separate financial statements.**

## Opinion

We have audited the consolidated and separate financial statements of Ecsponent Limited and its subsidiaries (the Group), which comprise the consolidated and separate statement of financial position as at 30 June 2018, and the consolidated and separate statement of profit and loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of cash flows for the period then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 30 June 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are

further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**"The accompanying consolidated and separate financial statements present fairly the financial position of the Group."**



Key audit matter	How our audit addressed the key audit matter
<b>Impairment of other financial assets and loans and advances (Group and Company)</b>	
<p>Other financial assets and loans and advances as disclosed in note 6 and 7 to the consolidated financial statements and note 44.4 of the separate financial statements, comprise 92% of the total assets of the Group and 16% of the assets of the Company. These assets have been recognised in the consolidated and separate statement of financial position as a consequence of transactions entered into by the Group.</p> <p>As required by the applicable accounting standards, the directors conduct annual impairment tests to assess the recoverability of the carrying value of these assets. This is performed by assessing the securities and guarantees held over these assets and based on the financial information of the specific entities.</p> <p>Accordingly, the impairment test of these assets is considered to be a key audit matter.</p>	<p>We focused our testing of the indication of impairment of other financial assets and loans and advances on the key assumptions made by the directors. Our procedures included:</p> <ul style="list-style-type: none"> <li>▪ Reviewing the impairment schedules prepared by directors, agreeing the securities and guarantees held to contracts.</li> <li>▪ Assessing the adequacy of the underlying securities held against relevant asset classes.</li> <li>▪ Confirming the market values of the share price relating to the listed shares held.</li> <li>▪ Using the knowledge of senior personnel and industry specific resources to assist us in evaluating the assumptions and methodologies used by the Group.</li> <li>▪ Evaluating the inputs used by the directors in determining whether there is any indication of impairment.</li> <li>▪ We found the assumptions used by the directors to be appropriate based on historical performance, future outlook and current circumstances.</li> </ul> <p>We considered the other financial assets and loans and advances disclosures to be appropriate.</p>

## Other information

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa and the Annual Report, which we obtained prior to the date of this report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

# Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or

conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Nexia SAB&T has been the auditor of Ecspont Limited for four years.

**Nexia SAB&T**

**Nexia SAB&T**

**Tertius de Kock**

Director, Registered Auditor, 04 October 2018

# Directors' responsibilities and approval

**The directors are required in terms of the Companies Act to maintain adequate accounting records and are responsible for the content and integrity of the consolidated financial information included in this report.**

It is their responsibility to ensure that the financial statements fairly present the state of affairs of the Group as at the end of the financial period and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guidelines, the Companies Act and the JSE's Listings Requirements and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk.

These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on

identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the 12 months to 30 June 2019 and, in the light of this review and the current financial position, they are satisfied that the Group has or has access to the adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Group's financial statements. The financial statements have been examined by the Group's external auditors and their report is presented on page 8.

The financial statements set out on pages 28 -137, which have been prepared on the going concern basis, were approved by the Board on 04 October 2018 and were signed on its behalf by:



**Terence Gregory**  
Chief Executive Officer



**Dirk van der Merwe**  
Financial Director



# Company secretary's certification

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## Declaration by the Company Secretary in respect of Section 88(2) (e) of the Companies Act.

In terms of Section 88(2)(e) of the Companies Act, I certify that, to the best of my knowledge and belief, the Company has lodged with the Commissioner all such returns as are required in terms of the Companies Act and that all such returns are true, correct and up to date.



**Lezanne du Preez-Cilliers**  
Company Secretary  
04 October 2018