

AUDIT AND RISK COMMITTEE REPORT



Tim Ross

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INTRODUCTION

The Audit and Risk Committee (committee) has pleasure in submitting its report for the year ended 31 December 2020 in compliance with section 94(7) of the Companies Act.

The committee acts for Mpac and all its subsidiaries, and is an independent body 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 IV.

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

COMPOSITION

The committee comprises of four Non-executive Directors, all of whom are independent. Tim Ross is the Chairman and Neo Dongwana, Sibusiso Luthuli and Andrew Thompson are members. The Chief Executive Officer, the Chief Financial Officer, the Head of Information and Communication Technology, the Group Risk and Sustainability Manager, a representative of KPMG, the independent internal auditor, and a representative of Deloitte & Touche, the independent external auditor, and other senior managers all attend meetings by invitation.

The committee members are appointed annually by the shareholders at the Annual General Meeting.

MEETINGS

The committee held four meetings during the year. The four members attended all meetings of the committee during the year.

COMMITTEE ACTIVITIES

The committee attended to the following during the year:

EXTERNAL AUDITORS

The committee reviewed the independence of Deloitte & Touche as Mpac's external auditor with SJ Nelson as the independent individual registered auditor who undertook Mpac's audit for the current year. The committee considered all information as required by Section 3.86 of the JSE Listings Requirements in assessing Deloitte & Touche's independence, registration as a Registered Auditor and the ability to perform a quality audit of Mpac. Deloitte & Touche has been the auditor of Mpac Limited for 16 years.

After considering the below factors and the auditor's tenure, the committee is satisfied that Deloitte & Touche is independent of Mpac.

The committee proposes the re-appointment of Deloitte & Touche as external auditor and SJ Nelson as the independent individual registered auditor for the 2021 financial year. Mpac's shareholders are requested to vote at the Annual General Meeting.

Independence of external auditors

This assessment was made after considering the following:

- confirmation from the external auditors that they, or their immediate family, do not hold any significant direct or indirect financial interest or have any material business relationship with Mpac. The external auditors also confirmed that they have internal monitoring procedures to ensure their independence;



- the auditors do not, other than in their capacity as external auditors 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 nature of the non-audit work undertaken and the quantum of the audit fees relative to the total fee base;
- 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;
- the criteria specified for independence by the Independent Regulatory Board for Auditors;
- information provided by the auditors in terms of the JSE Listings Requirements, Paragraph 22.15(h); and
- 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 2020 financial year.

External auditors' fees

The committee:

- approved, in consultation with management, the audit fee and engagement terms for the external auditors for the 2020 financial year;
- reviewed and approved the non-audit services fees for the year under review and ensured that the fees were in line with the non-audit service policy; and
- determined the nature and extent of allowable non-audit services and approved the contract terms for the provision of non-audit services through the Audit Committee charter.

External auditors' 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;

- monitored the effectiveness of the external auditors in terms of audit quality and expertise; and
- reviewed the external audit reports and management's response and 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 Mpact'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;
- in accordance with the JSE Listings Requirements approved the Group financial reporting procedure;
- considered and approved accounting policy changes resulting from the application of new standards commencing 1 January 2020;
- completed a detailed review of the going concern assumption, confirming that it was appropriate in the preparation of the financial statements; and
- ensured that appropriate financial reporting procedures are established and operating for all entities included in the consolidated Group financial statements.

KEY AUDIT MATTERS

The figures disclosed in the annual financial statements in certain circumstances are arrived at using judgment. These are explained in detail in the accounting policies. The committee has considered the qualitative and quantitative aspects of the information presented in the statement of financial position and other items that require significant judgment and noted the following:

1. Valuation of goodwill

The impact of Covid-19 and the lockdown, amongst other factors has resulted in the deterioration of the South African economy. In addition Mpact's share price has been trading below its net asset value during the financial year. These are possible impairment factors.

The impairment assessments are based on recoverable amounts that are supported by estimations of future cash flows, discount rates, growth rates, margins and market share.

The committee assessed management's value-in-use calculations by considering, amongst others, the following:

- the reasonableness of management's assumptions used in determining future cash flows;
- the terminal value and discount rates applied in management's value-in-use calculations and the sensitivity of these assumptions to reasonably possible changes;
- obtain an understanding of the cash-generating units and how these were derived;
- the sensitivity analysis performed by management over the value-in-use calculation; and
- the adequacy of the disclosures made in notes to the financial statements.

On this basis the committee supported management in charging the profit and loss statement with an impairment amount of R29.5 million for plant and equipment.

INTERNAL AUDIT

The committee:

- reviewed and approved the existing internal audit charter, which ensures that Mpact's internal audit function is independent and has the necessary resources, standing and authority within the organisation to enable it to discharge its duties;

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- 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; and
- considered the assessment from the internal audit function regarding the effectiveness of Mpack's system of internal controls and confirmed that based on their results of work undertaken, they provided reasonable assurance regarding the adequacy and effectiveness of the systems of internal control.

The committee has reviewed the independence of KPMG and the audit executive of internal audit as Mpack's internal auditor and is satisfied with their independence.

INTERNAL FINANCIAL CONTROL AND COMPLIANCE

The committee:

- 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 Mpack;
- reviewed the quarterly report on taxation;
- reviewed IT reports; and
- considered and, where appropriate, made recommendations on internal financial controls.

Internal financial reporting controls

The committee reviewed the internal financial control statement made by the CEO and CFO in terms of paragraph 3.84(k) of the JSE Listings Requirements.

The committee assessed the CEO and CFO evaluation of controls which included:

- The identification and classification of risks including the determination of materiality;
- Testing the design and determining the implementation of controls addressing high and low risk areas;
- Utilising internal audit to test the operating effectiveness of controls addressing high risk areas; and
- Obtaining control declarations from divisional managers on the operating effectiveness of all controls on a quarterly basis.

During the current financial year management identified deficiencies in internal control which are considered to have a low to medium consequence over financial reporting. Business unit management will maintain oversight of these risks in term of responsibility and treatment.

The committee has discussed and documented the basis for its conclusion, which includes discussions with internal and external auditors as well as management.

The committee believes that Mpack's internal controls can be relied upon as a reasonable basis for the preparation of the Annual Financial Statements. Refer to the CEO and Financial Director Responsibility Statement in respect of compliance in terms of paragraph 3.84(k) of the JSE Listings Requirements.

RISK MANAGEMENT

Management is regularly developing and enhancing Mpack's risk and control procedures to improve the mechanisms for identifying, assessing and monitoring risks given that effective risk management is integral to Mpack's objective of consistently adding value to its businesses. 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.

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

- reliability, security and integrity of financial and operational information;
- effectiveness and efficiency of operations;
- safeguarding of people and assets;
- reducing of our environmental footprint, and
- compliance with laws, regulations and contracts.

A Risk Management Committee identifies and evaluates strategic and operational risks against ten value drivers of:

- safe and healthy operating conditions;

- environmentally responsible operations;
- reputation (ethics, environment and customer safety) and CSI;
- motivated workforce;
- achieving Group strategy;
- achieving growth objectives;
- achieve operational, profitability and liquidity objectives;
- effective commercial stakeholder relations;
- compliance with legislation and contractual terms; and
- accurate and timely reporting

The committee assessed the effectiveness of the controls and determined how well management perceived the identified controls. The Likelihood rating tables and Potential Loss Impact Rating were reviewed and approved. The Risk Management Review is available on the website, www.mpact.co.za.

COMBINED ASSURANCE

A combined assurance map was developed by management in collaboration with internal audit and external audit. The mapping was compiled to help understand the level of coverage achieved by each assurance provider in terms of the third level of defence in the Combined Assurance Model. Although, the committee approved the Integrated Risk Assurance Framework it is noted that further improvements will be incorporated in the combined assurance map.

INTEGRATED REPORT

The committee fulfils an oversight role regarding the 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; and

- the committee has recommended the Integrated Report for the year ended 31 December 2020 to the Board for approval.

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 BDV Clark CA(SA) has the appropriate expertise and experience to meet the responsibilities of his appointed position as CFO as required by the JSE.

The committee is also 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.

IT GOVERNANCE

The Board has an IT governance policy and ensures adherence to King IV's IT governance principles. The ICT Steering Committee assists the Board with IT governance-related matters. The committee is governed by an effective charter, which gives guidance to the ICT management team and ensures effective and efficient management of all IT resources.

The IT governance framework with all relevant structures, processes and mechanisms are in place to enable IT to deliver value to the business and mitigate IT risks. IT risks have been identified and incorporated into the risk register.

An external independent person has been appointed to provide the Board with independent assurance on the effectiveness of IT internal controls including outsourced IT services. In addition, the consultant is required from time to time to join the ICT Steering Committee to give guidance on the alignment of the ICT strategy with the business strategy. This includes but is not limited to, expressing an independent opinion on emerging technology trends and their rate of adoption and implementation by various business sectors.

The committee is also satisfied that the resources within the IT function are adequate to provide the necessary support to Mpact. In making these assessments, the committee has obtained feedback from the external and internal auditors.

ASSURANCE

The 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

4 March 2021

Directors Responsibility Statement and Basis of Preparation

The Directors are responsible for preparing the summarised consolidated financial statements in accordance with applicable laws and regulations. These summarised consolidated financial statements have been prepared using accounting policies compliant with International Financial Reporting Standards (“IFRS”) and are prepared in accordance with IAS 34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and are in compliance with the Companies Act, 2008 of South Africa. The Directors take full responsibility for the preparation of the summarised consolidated financial statements and the financial information has been correctly extracted from the underlying consolidated annual financial statements.

Approval of the Summarised Consolidated Financial Statements

The Directors confirm, that to the best of their knowledge, the summarised consolidated financial statements are prepared in accordance with IAS 34: Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the requirements of the Companies Act of South Africa, fairly present the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole. The Directors believe that the Group has adequate resources to continue in operation for the foreseeable future and the summarised consolidated financial statements have therefore been prepared on a going concern basis. The summarised consolidated financial statements and related notes, which appear on pages 113 to 126 were approved by the Board of Directors and authorised for issue on 4 March 2021 and were signed on its behalf by:

AJ Phillips
Chairman

BW Strong
Chief Executive Officer

Certificate by the Company Secretary

In terms of section 88(2)(e) of the Companies Act, I certify that Mpact Limited Group has lodged with the Companies and Intellectual Property Commission all such returns, as are required of a Company in terms of the Act and, that such returns are true, correct and up to date.

DM Dickson
Group Company Secretary

4 March 2021