

# Audit and Risk Committee Report



**Tim Ross**  
Audit and Risk Committee Chair

“The Group’s management team remain committed to ongoing improvements ensuring that the control environment remains sound for reliable audited consolidated annual financial statements and safeguarding of the Group’s assets.”

## Introduction

The Audit and Risk Committee (committee) has pleasure in submitting its report for the year ended 31 December 2023 in compliance with section 94(7) of the Companies Act.

The committee acts for Mpact 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 Tim Ross as the Chairman, Sibusiso Luthuli and Donald Wilson, all of whom are independent. The Chief Executive Officer, the Chief Financial Officer, the Head of Information and Communication Technology (ICT), the Group Risk and Sustainability Manager, a representative of KPMG, the independent Internal Auditor, and a representative of PricewaterhouseCoopers Inc. (PwC), the independent External Auditor, and other senior managers attend meetings by invitation.

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

## Meetings

The committee held a total of four meetings during the year, which dealt with matters relating to Mpact Limited.

## Committee activities

The committee attended to the following during the year:

### External auditors

The committee reviewed the independence of PwC as Mpact’s external auditor with S Bootha as the independent individual registered auditor who undertook Mpact’s audit for the current year. The committee considered all information as required by section 3.84 and 3.86 of the JSE Listings Requirements in assessing PwC’s independence, registration as a Registered Auditor and the ability to perform a quality audit of Mpact. This is the first year that PwC has been the auditor of Mpact Limited.

After considering the factors below and the auditor’s tenure, the committee is satisfied that PwC is independent of Mpact.

### 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 direct or indirect financial interest or have any material business relationship with Mpact. 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 (IRBA);
- 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 2023 financial year.

#### External auditors' fees

The committee:

- approved, in consultation with management, the audit fee and engagement terms for the external auditors for the 2023 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 consolidated annual 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;
- approved Group financial reporting procedure in accordance with the JSE Listings Requirements;
- considered and approved accounting policy changes resulting from the application of new standards commencing 1 January 2023;
- 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.

#### Proactive monitoring

The Audit and Risk Committee hereby confirms that the findings contained in the JSE Proactive Monitoring reports, thematic reviews, common findings reports, were taken into account when preparing the audited consolidated and separate annual financial statements, as well as the preliminary summarised audited consolidated financial statements for the year ended 31 December 2023.

#### Key audit matters

The figures disclosed in the consolidated annual financial statements in certain circumstances are arrived at using judgement. 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 judgement and noted the following:

#### 1. Valuation of goodwill

Mpact assesses impairment of goodwill on an annual basis. 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.

Management assessed value-in-use calculations by considering, amongst others, the following:

- the reasonableness of assumptions used in determining future cash flows;
- the terminal value and discount rates applied in the 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 for the value-in-use calculation; and
- the adequacy of the disclosures made in notes to the financial statements.

Mpact expects that the plastics preforms and closures business will be affected by lower sales volumes which will likely result in lower profitability. The group assessed preforms and closures recoverable amount using the discounted cash flow method. Based on the assessment, the recoverable amount is lower than the carrying amount of preforms and closure, and as a result, the group recognised an impairment charge of R92 million to the statement of profit and loss.

## Audit and Risk Committee Report (continued)

Following from a special Audit and Risk Committee meeting, the committee supported management in impairing the goodwill at preforms and closures.

### 2. Assessing whether Mpac has control over Dalisu Holdings (Proprietary) Limited (Dalisu)

Mpac applies significant judgement when performing the assessment of control over Dalisu Holdings (Proprietary) Limited (Dalisu). Management's assessment of control includes, but is not limited to the following factors:

#### Relevant activities

- The production and sale of goods;
- These are mainly managed by 12-month sales contracts and the supply agreement between Mpac Operations and Dalisu;
- Decisions over asset purchases over R1 million for the construction of the Dalisu plant; and
- Managing the funding of Dalisu.

#### Decision-making over the relevant activities

Resolutions for the above decisions require the approval of both shareholders to pass.

#### Variable returns

Mpac's exposure to the variability of returns of Dalisu are higher than that of the other shareholder as a result of the subordination of working capital loans provided to Dalisu, in favour of the IDC. Mpac has also made a significant equity contribution into Dalisu and has pledged its shares to the IDC as security for the IDC debt of Dalisu.

#### Other relationships

Mpac has relationships with Dalisu such as a product supply agreement, a lease agreement for a nominal amount and assistance with administrative-related activities. It is also noted that the other co-shareholders are previous

employees of Mpac. These relationships were considered in detail. It was concluded that none of these relationships gave Mpac the right to unilaterally control the relevant decisions of Dalisu.

Based on the above considerations, management has concluded that Mpac jointly controls Dalisu as they cannot unilaterally make decisions about the relevant activities of Dalisu. As such, Dalisu is accounted for as a joint arrangement, which is equity accounted.

### Internal audit

The committee:

- reviewed and approved the existing internal audit charter, which ensures that Mpac'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 Mpac'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 Mpac'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 and the Chief Audit Executive as Mpac's internal auditor and is satisfied with their independence and the performance of the Chief Audit Executive.

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

### Internal financial reporting control

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. This paragraph requires a statement by the CEO and CFO to confirm that the internal financial controls are in place to ensure that material information has been provided to effectively prepare the audited consolidated financial statements. Internal financial reporting risks were identified and documented across key reporting processes as well as at a business unit level.

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.
- Obtaining control declarations from divisional managers on the operating effectiveness of all controls on an annual basis.

The Audit and Risk Committee is satisfied that the internal financial controls are adequate and effective to assist in compiling the audited consolidated annual financial statements. Where deficiencies in design and operational effectiveness of the internal financial controls have been noted, necessary remedial actions will be taken. The Audit and Risk Committee is satisfied that none of these deficiencies had a material effect for the purposes of the preparation and presentation of the audited consolidated annual financial statements for the year ended 31 December 2023.

The Group's management team remain committed to ongoing improvements ensuring that the control environment remains sound for reliable audited consolidated annual financial statements and safeguarding of the Group's assets.

## Risk Management

Management is regularly developing and enhancing Mpact's risk and control procedures to improve the mechanisms for identifying, assessing and monitoring risks given that effective risk management is integral to Mpact'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.

Mpact 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:

- achieving operational, profitability and liquidity objectives;
- protecting our reputation (ethics, environment, customer safety) and CSI initiatives;
- ensuring compliance with legislation and contractual terms;
- developing a motivated workforce;
- achieving Group strategy;
- providing safe and healthy operating conditions;
- managing environmentally responsible operations;
- achieving growth objectives;
- building effective commercial stakeholder relations; and
- ensuring 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](http://www.mpact.co.za).

## IT Governance

The Board has approved an ICT governance policy and ensures adherence to the King IV IT governance principles. The ICT Steering Committee, chaired by the Group CEO, provides assurance to the Board related to ICT 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 ICT resources.

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

An external independent ICT advisor has been appointed to provide the Board with independent assurance on the effectiveness of ICT internal controls including outsourced ICT services. In addition, the ICT advisor is required 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. ICT maturity assessments are concluded by the independent advisor periodically to determine improvement and opportunities for further development in ICT. This is reported on by the independent advisor to the Board Audit and Risk Committee.

The ICT Steering Committee is satisfied that the resources within the ICT 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.

## Audit and Risk Committee Report (continued)

### 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
- considered reviews made by Chairs of other committees.

### 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 Controller.

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 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*

7 March 2024