INTRODUCTION

The Audit and Risk Committee ("the Audit Committee") is established as an independent statutory committee in terms of section 94(2) of the Companies Act 71 of 2008, as amended ("the Companies Act") and oversees audit and risk committee matters for all of the South African subsidiaries of Shoprite Holdings, as permitted by section 94(2)(a) of the Companies Act.

The main purpose of the Audit Committee is to assist the Board in monitoring the integrity of financial statements and overseeing the Integrated Report. It is also responsible to oversee the effectiveness of the Group’s internal financial controls as well as the internal and external audit functions. The Companies Act furthermore requires the Audit Committee to perform specific responsibilities.

The Audit Committee’s terms of reference is formalised in a charter which is reviewed annually.

During the period under review, the Audit Committee conducted its affairs in accordance with the charter and has discharged its responsibilities as required by the charter, the Companies Act and the material requirements of King III.

AUDIT COMMITTEE MEMBERS, MEETING ATTENDANCE AND ASSESSMENT

The Audit Committee consists of five (5) independent non-executive directors elected by the shareholders of Shoprite Holdings on recommendation by the Board and is chaired by Mr JG Rademeyer.

Audit Committee meetings are held at least four (4) times a year as required by the charter. During the period under review, the Committee met five (5) times. In addition, a special Audit Committee meeting was held on 14 August 2015 to approve the 2014/15 annual financial statements of the Company.

The attendance of the Committee members is recorded below:

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<thead>
<tr>
<th>NON-EXECUTIVE DIRECTORS</th>
<th>11.06.2014</th>
<th>15.06.2014 (Special)</th>
<th>31.10.2014</th>
<th>20.02.2015</th>
<th>15.05.2015</th>
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<tr>
<td>JG RADEMEYER</td>
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<td>JF BASSON</td>
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<tr>
<td>JA LOUW</td>
<td>●</td>
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<tr>
<td>JJ FOUCHÉ</td>
<td>●</td>
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<tr>
<td>JA ROCK*</td>
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*Appointed with effect from 18 August 2014.

The financial director, internal and external auditors attended the Audit Committee meetings by invitation. Other members of management attended as required.

The Audit Committee agendas provide for meetings between the members and internal and external auditors.

Audit Committee evaluation

As part of the annual evaluation, the performance of the Audit Committee and its members were assessed and found to be satisfactory. In addition, members were assessed in terms of the independence requirements of King III and the Companies Act. All members of the Audit Committee continue to meet the independence requirements.

ROLES AND RESPONSIBILITIES

During the period under review, the Audit Committee fulfilled the statutory duties as required by the Companies Act and recommended in King III, as well as various additional responsibilities assigned to it by the Board.

External auditor appointment and independence

The Audit Committee annually assesses the independence of the external auditor, PricewaterhouseCoopers (PwC). At the Committee’s meeting on 11 August 2015, PwC were required to confirm that they:

- are not precluded from re-appointment due to any impediment as listed in section 90(2)(b) of the Companies Act;
- are in compliance with section 91(5) of the Companies Act, by comparison with the membership of the firm at the time of its re-appointment in 2014, more than one half of the members remain in 2015; and
- remain independent as required by section 94(7) of the Companies Act and the relevant provision in the JSE Listings Requirements.

In consultation with the Group’s executive management, the Audit Committee agreed to the terms of the PwC engagement letter, audit plan and budgeted audit fees in respect of the 2015 financial year. The total fee payable to PwC during the reporting period amounted to R33.96 million of which R6.26 million was in respect of non-assurance services.

An annual framework governs the process through which PwC renders non-audit services to ensure that the audit independence is not impaired. The Audit Committee approved the terms of a master service agreement for the provision of non-audit services by PwC as well as the nature and extent of non-audit services that may be provided in terms of a pre-approval policy. Non-audit services rendered by PwC during the period under review comprised tax advisory and compliance services and other advisory services.

Based on the above assessment, the Committee re-nominates PwC as independent external auditor for the 2015/16 financial year and Mr A Wentzel as the designated partner to perform the functions of external auditor, until the 2016 annual general meeting of Shoprite Holdings. Shareholders will therefore be requested to re-elect PwC as independent external auditor for the 2015/16 financial year at the annual general meeting on 19 October 2015.

Financial statements and accounting practices

During the reporting period, the Audit Committee reviewed the interim and annual financial reports of the Group and recommended the acceptance and approval thereof to the Board.

During the review of the financial reports the Audit Committee considered:

- the accounting policies and financial statements, in order to ensure compliance with International Financial Reporting Standards and relevant requirements of the Companies Act and the JSE Listings Requirements; and
- the audit report issued by the external auditors.

Internal controls

The Group’s systems of internal control are designed and implemented to support the identification, evaluation and management of risks affecting the Group. These include controls in respect of the financial reporting process but extend across all areas of operations.

During the reporting period an internal review was performed to assess the effectiveness of the Group’s system of internal controls and risk management procedures. This assessment formed the basis for the Audit Committee’s recommendation in this regard to the Board.

Management, internal and external auditors have agreed on a combined assurance model to enable these parties to report to the Audit Committee on the efficiency of the Group’s internal financial controls. Assurance on compliance with systems of internal control and on their effectiveness is obtained through regular management reviews, assurance, testing of certain aspects of the internal financial control systems by the external auditors during the course of their statutory audit and regular reports to the Audit Committee by the external and internal auditors.
During the period under review, the Audit Committee reviewed the reports on the design, implementation and effectiveness of the Group’s systems of internal financial and risk controls. No material breakdowns in the internal and financial controls came to the attention of management of the Group that required reporting.

Integrated and sustainability reporting
In fulfilling its oversight responsibilities, the Audit Committee has reviewed the sustainability information that forms part of the Group’s Integrated Report and has assessed its consistency with operational and other information known to the Audit Committee members, as well as its consistency with the Group’s annual financial statements.

The Audit Committee is satisfied that the above is consistent with the Group’s financial results. As such, the Audit Committee has recommended that the Group’s Integrated Report be approved by the Board.

Going concern
The Audit Committee has reviewed a documented assessment, including key assumptions, prepared by management on the going concern status of the Group. The Board’s statement on the going concern status of the Group, as supported by the Audit Committee, is contained in the Directors’ Report.

Governance of risk
Whilst the Board is ultimately responsible for the maintenance of an effective risk management process, the Committee assisted the Board in assessing the adequacy of the risk management process.

The risk forum (a management committee consisting of senior managers from all business units and chaired by the financial director) met four (4) times during the reporting period. During these meetings significant risks affecting the Group were considered and discussed to ensure that executive management is aware of the risks affecting the Group and their business units. Minutes of these meetings are submitted to the Audit Committee for consideration.

Each significant business unit within the Group has its own enterprise wide risk management (EWRM) plan which is updated regularly to ensure that risks affecting business units are current and that the necessary controls to mitigate these risks are in place.

The Group also has a top 20 risk document which details the material risks of the Group as well as the necessary controls to mitigate these risks. All business units are required to report on the risk control measures that they have implemented to address specific risks affecting their respective business units.

The Audit Committee is satisfied that, during the course of the 2014/15 financial year, executive management was aware of and addressed the material risks affecting their respective business units and the Group as a whole.

Internal audit
The Audit Committee is responsible to ensure that the Group’s internal audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its responsibilities effectively. Furthermore, it oversees co-operation between the internal and external auditors, and serves as a link between the Board and these functions.

Internal audit activities, all of which are risk based, are performed by a team of appropriately qualified and experienced employees who are led by the internal audit manager. The internal audit department is responsible for reviewing and providing assurance on the adequacy of the internal control environment across all of the significant areas of the Group’s operations. Internal audit’s activities are measured against the Group’s approved internal audit plan and the internal audit manager tables a progress report in this regard to the Audit Committee at each meeting.

The internal audit manager has direct access to the Audit Committee, primarily through the Chairman.

During the reporting period the Audit Committee:
– reviewed and approved the internal audit charter and annual audit plan and evaluated the independence, effectiveness and performance of the internal audit function and compliance with its charter;
– considered the reports of internal audit on the Group’s systems of internal control;
– reviewed significant issues raised by the internal audit process and the adequacy of corrective actions taken in response to findings; and
– formed an opinion that adequate, objective internal audit standards and procedures exist within the Group and that the Group’s internal audit department has complied with the required legal, regulatory and other responsibilities as stipulated in their charter during the period under review.

Governance of information technology (IT)
In executing the Board’s mandate for IT governance, the Audit Committee successfully built on the foundations set in previous years under the direction of the General Manager IT

During the financial year, the Audit Committee reviewed the implementation of all relevant IT governance mandates, policies, processes and control frameworks. Furthermore, the Audit Committee also provides assurance to the Board on all IT related matters, including significant IT investments, by engaging both internal and external assurance providers. This assurance forms part of the Group’s combined assurance framework.

The Group’s IT governance framework is formalised in an IT governance charter and policies were formulated and implemented. The charter and policies outline the decision making rights and accountability framework for IT governance within the Group.

EVALUATION OF THE EXPERTISE AND EXPERIENCE OF FINANCIAL DIRECTOR AND FINANCE FUNCTION
As required by JSE Listing Requirement 3.84(h), the Audit Committee, through a formal process, has satisfied itself that the financial director, Mr M Bosman, has the appropriate expertise and experience to act in this capacity. Mr Bosman is a chartered accountant and was appointed as financial director of the Group in 2014.

The Audit Committee also considered a written report that records the manpower, roles and responsibilities, qualifications and experience of senior members of the Group finance department. Based on this assessment, the Audit Committee is satisfied that the Group finance function has the required expertise and adequacy of resources to perform the Group financial function.

JG Rademeyer
Chairman