

# Audit and Risk Committee Report

## INTRODUCTION

We are pleased to present our report to shareholders for the financial year ended 30 June 2011. The Audit and Risk Committee (“the Audit Committee”) is an independent statutory committee appointed by the Board of directors, who delegates duties and responsibilities to the Audit Committee.

During the reporting period, the Audit Committee made changes to certain of its governance policies in order to comply with the principles stipulated by the King Code of Governance Principles (“King III”).

The Audit Committee’s terms of reference is formalised in a charter approved by the Board of directors. 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 71 of 2008 (as amended) (“the Companies Act”), and the substantial requirements of King III. Instances where King III requirements have not been applied are explained in this report.

## AUDIT COMMITTEE MEMBERS, MEETING ATTENDANCE AND ASSESSMENT

The Audit Committee meets at least four (4) times a year as required by the charter. To ensure compliance with the requirements of the Companies Act, the Board appointed a third member, Mr JA Louw, to the Audit Committee with effect from 24 May 2011.

NON-EXECUTIVE DIRECTORS	16/08/2010	01/11/2010	18/02/2011	23/05/2011
JG RADEMEYER	✓	✓	✓	✓
JF MALHERBE	✓	✓	✓	✓

Internal and external auditors attended the Audit Committee meetings. Certain executive directors and members of senior management attended the above meetings by invitation.

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

## 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 of directors.

### External auditor appointment and independence

The Audit Committee has satisfied itself that the external auditor, PricewaterhouseCoopers Inc (PwC), conducted its duties independently and that no limitations were imposed by management on PwC whilst performing their duties during the review period.

The Audit Committee, in consultation with the Group’s executive management, agreed to the terms of the PwC engagement letter, audit plan and budgeted audit fees in respect of the 2011 financial year.

A formal framework governs the process through which PwC renders non-audit services. 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.

The Audit Committee nominates PwC for re-election at the annual general meeting (AGM) of Shoprite Holdings, and Mr A Wentzel as the designated partner to perform the functions of external auditor until the 2012 AGM. The Audit Committee has satisfied itself that both PwC and Mr Wentzel are accredited with the JSE Limited as required.

### 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 of directors.

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 the relevant requirements of the Companies Act; and
- the audit report issued by the external auditors.

### Internal controls

An internal audit 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.

The management and the internal and external auditors have agreed on a combined assurance model to enable these parties to report to the Audit Committee on the efficacy of the Group’s internal financial controls and that no material breakdowns occurred in this regard.

During the period under review, no material breakdowns in the internal controls of the Group were reported.

### Integrated and sustainability reporting

The Audit Committee has considered 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 financial results. As such the Audit Committee has recommended that the Group’s Integrated Report be approved by the Board of directors.

### 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 Audit Committee assisted the Board in assessing the adequacy of the risk management process.

Under the supervision of the Audit Committee, the risk forum (a management committee consisting of senior managers from all business units) reviewed and updated the enterprise-wide risk management (EWRM) plan during the reporting period. This EWRM plan was implemented in all business units to ensure that senior management understands the risks attached to their respective



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business units and the controls necessary to mitigate these risks.

The Audit Committee is satisfied that, during the course of the 2011 financial year, management revisited all risks by means of an enterprise-wide risk assessment. The resultant top 20 risks that now form part of individual EWRM's were adequately addressed by the Group's various business units.

## Internal audit

The Audit Committee is responsible for ensuring 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, the Audit Committee oversees cooperation between the internal and external auditors, and serves as a link between the Board of directors and these functions.

The internal audit function reports centrally and is responsible for reviewing and providing assurance on the adequacy of the internal control environment across all of significant areas of the Group's operations. The internal audit manager is responsible for reporting the progress and findings of internal audit's work conducted against the Group's approved audit plan to the Audit Committee on a quarterly basis.

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

The Audit Committee is satisfied that Group internal audit has complied with the required legal, regulatory and other responsibilities as stipulated in their charter during the period under review.

## Governance of information technology

As part of the Group's IT governance framework a formal 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 THE FINANCIAL DIRECTOR AND FINANCE FUNCTION

The Audit Committee has satisfied itself that the financial director, Mr CG Goosen, has the appropriate expertise and experience to act in this capacity.

The Audit Committee is also satisfied that the Group finance function has the required expertise and adequacy of resources to perform the Group financial function.

## JG Rademeyer

*Chairman*

26 August 2011