

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee (the “audit committee”) takes pleasure in presenting its report for the year ended 31 March 2018.

1. Terms of reference

The audit committee is a formal committee of the board of the company and its subsidiaries and has adopted written terms of reference. These terms of reference include the statutory requirements of the Companies Act of South Africa (“the Act”), the recommendations of the King Code on Governance (“King IV”) and certain responsibilities delegated by the board.

The main responsibilities of the audit committee include:

- Reviewing the ongoing effectiveness of the internal financial controls
- Reviewing the interim and preliminary results, the annual financial statements and other content in the integrated annual report, and making a formal recommendation to the board to adopt the same
- Ensuring compliance with IFRS and the relevant requirements of the Act and the Johannesburg Stock Exchange (“JSE”) with respect to financial reporting
- Overseeing the appointment and independence of the external auditors and reviewing their external audit reports
- Determining a policy for the provision of non-audit services by the external auditors
- Monitoring the risk management framework adopted by the company and its subsidiaries (“group”) and reviewing any risk management reports in this regard
- Reviewing management’s assessment of the group and company to continue as a going concern

The audit committee confirms that it has fulfilled all its statutory obligations as well as its terms of reference for the year under review.

The audit committee has monitored and confirms that it is in compliance with the risk management policy which is in accordance with the industry practice and prohibits the company from entering into derivative transactions not in the ordinary course of business.

2. Members of the audit committee, attendance of meetings and evaluation

The audit committee comprises three independent non-executive directors as detailed in the corporate governance report and is chaired by Gareth Fox CA(SA). Meetings and attendance are also detailed in the corporate governance report. Certain executive directors as well as the external auditors attended audit committee meetings by invitation.

The terms of reference require an annual evaluation of the performance of the audit committee and its members as well confirmation of the members’ independence in terms of King IV and the Act. The evaluation performed covers the year ended 31 March 2018. The outcome of the evaluation performed on 12 June 2018 was satisfactory.

3. External auditors

The audit committee nominated KPMG Inc. as external auditors for the current year, having satisfied itself that they are independent of the group. The audit committee noted Pierre Conradie as the designated auditor and confirmed that both he and KPMG Inc. are accredited with the JSE as required. The external auditors have unrestricted access to the audit committee.

The audit committee approved the terms of the auditors’ engagement letter, their audit plan and budgeted audit fees for the audit of the group and company annual financial statements for the year ended 31 March 2018.

The audit committee adopted a formal framework for the pre-approval of allowable non-audit services above certain pre-determined thresholds.

4. Significant matters

Valuation of investment property

The major risk relating to investment property is the valuation of the investment property. Valuation of investment property has been highlighted as an area of critical judgement and is detailed in note 3 of the annual financial statements. Each property is externally valued every three years. Where an external valuation is not obtained, the directors determine the fair value of each property, using the valuation methodology in note 3. Through discussion with the executive directors, the audit committee is satisfied with the valuation methodology and inputs. A number of non-executive board members have extensive experience in the property industry and the board as whole approves the internal valuations. The audit committee also monitors differences between internal and independent external valuations and is satisfied overall that the fair value of investment properties is not materially misstated.

Business combination and goodwill

The major risk relating to business combinations is the correct accounting for the take on balance sheet and the resultant goodwill arising on the acquisition. Accounting for business combination has been highlighted as area of critical judgement and is further detailed in notes 5 and 21 of the annual financial statements. The audit committee through discussion with the executive directors is satisfied with the accounting for business combinations and the resultant goodwill. The audit committee has assessed the reasonability.

REIT status

As income contains elements which may be deemed to be non-property related income, there is a risk that the company does not meet the requirements to be classified as a REIT as stipulated in section 25BB of the Income Tax Act. Management performs an assessment, on an ongoing basis, to ensure that the company's "rental income" is above the 75% threshold as set out in section 25BB. Management has also engaged on this matter and is confident that its view is in line with industry standard. Through discussion with management and inspection of financial records, the audit committee is satisfied that the company meets the criteria to be classified as a REIT.

5. Internal audit

The audit committee continues to assess the requirement to have an internal audit function as the company grows. At this point in time, the audit committee has satisfied itself that the size and complexity of the group does not warrant an internal audit function.

6. Financial director

In terms of JSE Listings Requirement paragraph 3.84 (h), the audit committee has considered the expertise and experience of the financial director, Stephen Lucas CA(SA), and is satisfied that they are appropriate for his role.

7. Proactive monitoring

The audit committee confirms that it has considered the findings contained in the JSE's 2017 Proactive Monitoring Report when preparing the annual financial statements for the year ended 31 March 2018.

8. Internal financial controls

The audit committee reviewed the risk management and internal control framework presented by management and matters raised by the external auditors report as to the efficiency of the group's internal financial controls.

In accordance with paragraph 3.84(g)(ii) of the JSE Listings Requirements, the audit committee confirms that no material breakdown of internal financial controls was identified during the current financial year.

9. Approval of annual financial statements

The audit committee confirms that it formally recommended the adoption of the group and company annual financial statements to the board of directors.



GBH Fox CA(SA)
Audit and Risk Committee Chairman

12 June 2018