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## MR PRICE GROUP LIMITED

### INTERNAL AUDIT COMMITTEE MANDATE

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#### 1. Constitution:

As a vital component of good Corporate Governance, an in-house and centralised Internal Audit function has been established by the Mr Price Group Board of Directors.

This function, which is independent of all other organisational functions, has been established in order to assist the Board of Directors and executive management in achieving their objectives; by providing them with reasonable assurance regarding the effectiveness of the company's corporate governance, risk management processes and systems of internal control.

Internal Audit shall provide independent, objective assurance and consulting services designed to add value and improve the company's operations. It must help the company to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

#### 2. Independence:

The organisational status and independence of Internal Audit is essential as it facilitates objectivity and the application of impartial and unbiased judgment. It has therefore been established that:

- The Chief Audit Executive (CAE) will report administratively to the Chief Executive Officer and functionally to the Board Audit and Compliance Committee (BACC).
- The CAE has a standing invitation to attend meetings of the Executive Committee or other committees made up of a majority of senior executives, but is not a member of these committees in order to protect independence.
- The CAE has unrestricted access to the Chairman of the Board Audit and Compliance Committee and the Chairman of the Board.
- The BACC is responsible for overseeing internal audit, and in particular, the Committee shall:
  - In conjunction with the Board, be responsible for the appointment/ dismissal of the CAE;



- In conjunction with the Chief Executive Officer, evaluate the performance of the CAE and recommend the CAE's salary and incentive for approval by the Remuneration Committee.
- In conjunction with the Chief Executive Officer, review and approve the salaries/ incentives of the Internal Audit Division.
- Review and approve the internal audit plan, charter, objectives and goals, staffing and budget;
- Ensure that Internal Audit is subject to an independent quality review, as and when the Committee determines it appropriate;
- Ensure that Internal Audit has the necessary resources and access to information to enable it to execute its mandate and to perform its duties;
- Review significant differences of opinion between management and Internal Audit; and consider and review any difficulties/ scope limitations encountered in the course of the audits; and
- On a regular basis, meet separately with the CAE to discuss any matters that the Committee or Internal Audit believes should be discussed privately.

### **3. Organisational Structure:**

- 3.1 In the course of their duties, Internal Audit has full, free and unrestricted access to management, employees, any of the Company's financial and operational activities, physical locations and to all information/ records considered necessary for the proper execution of internal audit's work, at the discretion of the CAE, subject to strict accountability for safekeeping and confidentiality thereof.
- 3.2 The CAE must confirm to the Board, at least annually, the organisational independence of Internal Audit.
- 3.3 Internal Audit has unrestricted access, in the presence of management, to Company assets. When necessary, special arrangements will be made for the examination of confidential or classified information.
- 3.4 The CAE and internal audit staff are not authorised to:
  - Perform any operational duties for the company,
  - Initiate or approve any accounting transactions outside of Internal Audit, and
  - Direct the activities of any associate not employed by Internal Audit, except to the extent that such associate has been appropriately assigned to assist the internal auditors.



- 3.5 Internal Audit may:
- Allocate resources, set frequencies, select subjects, determine scope of work and apply techniques required to accomplish audit objectives, and
  - Obtain, as necessary, specific services from within or outside the company.
- 3.6 Internal audit staff generally will not assume a role other than in an advisory capacity in the design, installation or operation of control procedures. Any staff transferred into Internal Audit from other departments should not provide assurance services for any aspects of their previous department's work until at least one year has elapsed.
- 3.7 The CAE is ultimately responsible for the work performed by all internal audit staff. This includes, but is not limited to, the establishment of the scope of activities to be carried out in the different departments, the tools and methodologies to be followed, procedures and standards, headcounts of the function in the different departments, required skills, educational levels, experience etc. for recruitment into the function, decisions on the possible outsourcing or co-sourcing of capacity.

#### 4. Impairments to independence:

- 4.1 The CAE must report to the CEO and BACC if independence or objectivity is impaired or appears to be impaired. **Impairment** to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and resource limitations, such as funding.
- 4.2 **Limitation of Scope**  
Any attempted scope limitation by management must be reported, preferably in writing, to the CEO and to the BACC. The question of whether an action from management in fact constitutes a scope limitation is at the judgment of the CAE. Except in cases of suspected fraud, the CEO and the BACC may decide to accept a limitation of scope. In such instances, the CAE should evaluate from time to time whether the circumstances surrounding the scope limitation are still valid and whether the scope limitation needs to be reported again to the CEO and the BACC for their renewed consideration.

#### 5. Responsibilities:

- 5.1 Internal audit assurance is provided through applying the International Professional Practices Framework (IPPF), including the Code of Ethics of the Institute of Internal Auditors (IIA).



5.2 Internal audit provides assurance to the company's stakeholders that the company operates in a responsible manner by performing the following functions:

- Evaluating the company's governance processes including ethics, especially the 'tone at the top';
- Performing an objective assessment of the effectiveness of risk management and the internal control framework;
- Systematically analysing and evaluating business processes and associated controls; and
- Providing a source of information, as appropriate, regarding instances of fraud, corruption, unethical behavior and irregularities.

5.3 The CAE has the responsibility to:

- Develop a flexible risk-based internal audit annual plan, which is informed by Company strategies, key risks, input from BACC and management; subject to BACC review and approval.
- Implement the approved annual audit plan and any special tasks or projects requested by senior management and the members of the BACC.
- Annually review the Internal Audit Charter and present changes for BACC review and approval.
- Recruit and maintain a professional audit staff with sufficient knowledge, skill, experience and professional certifications to meet the requirements of this Charter.
- Establish and maintain a quality assurance and improvement program that covers all aspects of Internal Audit, and to monitor its effectiveness.
- Establish policies and procedures to guide the Internal Audit activity.
- Consider the scope of work of the external auditors and other assurance providers (risk management, compliance, security, legal, ethics, environment), as appropriate, for the purpose of providing optimal audit coverage to the company at a reasonable overall cost.
- Report significant issues related to the processes for controlling the activities of the company, including potential improvements to those processes.



- Periodically provide information on the status and results of the annual audit plan and the sufficiency of the audit resources.
  - Keep the BACC informed of emerging trends and successful practices in internal auditing.
- 5.4 Internal audit must provide a written assessment regarding the effectiveness of the system of internal controls and risk management to the Board. This enables the Board to report on the effectiveness of the system of internal controls in the integrated report.
- 5.5 In conjunction with other assurance providers, Internal Audit must conduct a documented review of the key financial reporting controls in identified financial systems and processes every year. This must be submitted to the ACC to enable it to formulate its comment to be included in the annual financial statements and to make a submission to the Board.

## **6. Nature and scope of the function:**

The scope of work of Internal Audit is to determine whether the company's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning effectively. The scope of possible activities that Internal Audit can engage in includes:

- Evaluating whether controls are adequate, appropriate and correctly applied; and whether quality and continuous improvement are fostered in the organisation's control process;
- Evaluating the risk management and governance infrastructure, frameworks, processes and practices;
- Reviewing the reliability and integrity of significant financial, managerial and operational information and the means used to identify, measure, classify and report such information;
- Reviewing the systems established by management to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports, and determining whether the company is in compliance;
- Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of assets;
- Appraising the economy and efficiency with which resources are employed;
- Reviewing operations or programmes to ascertain whether results are consistent with established objectives and goals, and whether the operations or programmes are being carried out as planned;



- Evaluating and assessing significant merging or consolidation of functions and new or changing services, processes, operations, and control processes that are coincidental with their development, implementation and/or expansion;
- Contributing to the improvement of governance, risk management and control processes;
- Investigation of significant irregularities and fraud, consideration of the potential for occurrence of fraud and evaluating how the organisation manages fraud risk; and
- Performing consulting services, beyond traditional assurance services, to assist management in meeting its objectives. Examples may include facilitation, training, and advisory services.

## **7. Relations with other assurance providers:**

An attitude of co-operation, co-ordination and collaboration will be applied in dealings with other assurance providers.

### **7.1 Combined Assurance**

Internal audit will make an assessment of the adequacy of the combined assurance approach adopted by the company. This assessment includes the adequacy of risks covered by the different assurance providers and the reliability of the assurance provided.

### **7.2 Relationship with Management**

It is the philosophy of the Mr Price Group Audit Division to establish an on-going partnership with management and to conduct audits in a constructive manner. A spirit of participative teamwork between the auditor and those being audited will be fostered.

Management will be furnished with reports setting forth independent and objective analyses, appraisals, recommendations and pertinent comments concerning the activities audited.

### **7.3 Relationship with External Auditors**

Internal audit activities will be co-ordinated with the external auditors to ensure:

- The duplication of effort and expense on routine phases of audit work is minimised.
- Optimal audit coverage of key risk areas is obtained;
- Weaknesses identified by the external auditors are taken into account in the internal audit plan, and vice versa;



- There is an exchange of information, audit work papers (including systems documentation), management letters;
- The forming of joint teams, where appropriate; and
- Internal audit performs certain (financial and IT) audit work to support the external audit process.

## **8. Internal Audit Reporting Protocol:**

### **8.1 Detailed Internal Audit Reports**

A detailed internal audit report will be generated at the end of every audit assignment. This will include the audit objective, scope, opinion, executive summary, detailed findings and recommendations, management responses and agreed action. The detailed report will be discussed and agreed with the responsible management teams, and disputes and inappropriate management responses will be resolved prior to the report being released for final distribution.

Audit reports are company-confidential and therefore have limited distribution. They may not be reproduced or transmitted to others without the express permission of the CAE.

### **8.2 Reporting to the Divisional Audit Committees (DAC)**

A Divisional Audit Committee (DAC) has been established, which comprises key divisional management (including at least the Managing Director, Financial Director/Manager and Operational Director/Manager), representatives of group management and representatives of Internal Audit.

The following reports will be distributed to the DAC members at least one week prior to the meeting:

- Minutes of the previous meeting,
- An Audit Action List detailing the status of previously reported issues. (The issues remain on the Audit Action List until they are reported as “resolved”, or are waived after general agreement by the members of the meeting),
- A Summary of Significant Audit Findings, recommendations and related management action,
- A Summary of Losses / Irregularities (as furnished by the divisional finance departments),
- A Summary of Fraud Hotline investigations,



- Status / achievement of the annual internal audit plan (bi-annually), and
- Proposed internal audit plan, resources, budget and charter (annually) for information.

**8.3 Reporting to the BACC**

The following reports will be distributed to the BACC members and invitees at least one week prior to the meeting:

- A Summary of Significant Audit Findings, recommendations and related management action,
- A Summary of Losses / Irregularities (as furnished by the divisional finance departments),
- A Summary of Fraud Hotline investigations,
- Minutes of the DAC and Audit Action List detailing the status of previously reported issues,
- Status/ achievement of the annual internal audit plan (bi-annually),
- Proposed internal audit plan, resources, budget and charter (annually) for approval,
- Written assessment of internal controls, risk management and governance processes (annually).



**9. Approval:**

The Mr Price Group Limited Audit Division Mandate is approved as follows:

Approved this 11<sup>th</sup> day of March 2011.

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**WJ Swain**  
Chairman:  
Board Audit and Compliance Committee  
Non-executive Director

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**SI Bird**  
Chief Executive Officer  
Mr Price Group

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**S Moodley**  
Chief Audit Executive  
Mr Price Group