

# AUDIT AND RISK COMMITTEE REPORT

Spear REIT Limited and its subsidiaries for the year ended 28 February 2022

The audit and risk committee has pleasure in submitting this report, as required by section 94 of the Companies Act.

## FUNCTIONS OF THE AUDIT AND RISK COMMITTEE

The audit and risk committee has adopted formal terms of reference, delegated to it by the board of directors. The audit and risk committee has discharged its functions in terms of its terms of reference and ascribed to it in terms of the Act as follows:

- Reviewed and monitored key policies and processes
- Made recommendations to the board regarding the appointment of the auditor and lead audit partner
- Verified the independence of the external auditors, BDO South Africa Incorporated, for 2022 and noted the appointment of Mr Bernard van der Walt as lead audit partner
- Approved the audit fees and engagement terms of the external auditors
- Oversaw and reviewed the quality of the effectiveness of the external audit
- Determined the nature and extent of allowable non-audit services and pre-approved the contract terms for the provision of non-audit services by the external auditors
- Reviewed the effectiveness of the Chief Financial Officer and finance function
- Reviewed financial results and made recommendations to the board
- Reviewed financial statements and reports from the external auditors and made recommendations to the board
- Took appropriate steps to ensure that the financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and in the manner required by the Companies Act of South Africa
- Reviewed the external audit reports on the annual financial statements
- Reviewed significant financial reporting issues and assessed the appropriateness of accounting policies
- Reviewed the ongoing effectiveness of the internal financial controls
- Evaluated the effectiveness of the risk management framework, controls and governance processes
- Reviewed material risk exposures
- Monitored the existence, nature, extent, implementation and effectiveness of the internal control processes and, when appropriate, made recommendations on internal financial controls.

## MEMBERS OF THE AUDIT COMMITTEE AND ATTENDANCE AT MEETINGS

The audit and risk committee consists of three independent non-executive directors listed hereunder and meets at least three times per annum in accordance with the audit and risk committee terms of reference. All members act independently as described in section 94 of the Companies Act. Meetings and meeting attendance are detailed in the corporate governance report.

- JE Allie (Chairman)
- BL Goldberg
- N Kjellström-Matseke

## INTERNAL AUDIT

The audit and risk committee has oversight of the Spear group's financial statements and reporting process, including the system of internal financial control. The audit committee has satisfied itself that the size and complexity of the company does not warrant an internal audit function at this stage.

Based on the review of the Spear group's system of internal controls and risk management, and considering the information and explanations given by management and discussions with the external auditor on the results of the audit, nothing has come to the attention of the committee that caused it to believe that the Spear group's system of internal controls and risk management were not effective, and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

## ATTENDANCE

The external auditors, in their capacity as auditors to the Spear group, attended two of the meetings of the audit and risk committee. Executive directors attended meetings by invitation.

## CONFIDENTIAL MEETINGS

Audit and risk committee agendas provide for confidential meetings between the committee members and the external auditors.

## EXTERNAL AUDITOR

In assessing the auditor's independence, the committee considered guidance contained in King IV™ as well as the Independent Regulatory Board for Auditors ("IRBA")'s publications and the related commentary thereon. The board sets a policy that governs the level and nature of non-audit services, which requires approval by the audit and risk committee for all non-audit services. In determining the independence of the external auditor, the committee considered the level and types of non-audit services provided as well as other enquiries and representations. The committee is satisfied that the auditor does not, except as external auditor or in rendering permitted non-audit services, receive any remuneration or other benefits from Spear. In addition, the committee has satisfied itself that the auditor's independence was not prejudiced by any consultancy, advisory or other work undertaken or as a result of any previous appointment as auditor.

The prospect of mandatory audit firm rotation was also considered by the committee during the current financial year. As required by the Companies Act, the committee has satisfied itself that Spear REIT Limited's external auditor, BDO South Africa Incorporated, was independent of the company, as set out in sections 90(2)(c) and 94(8) of the Companies Act and is thereby able to conduct its audit functions without any undue influence from the company.

The committee has considered the relevant audit quality indicators, including the audit firm's system of quality control. It noted that BDO South Africa Incorporated was subject to a review of its quality control practices in terms of International Standard on Quality Control by the IRBA. No legal or disciplinary proceedings have been concluded

against the firm in the past seven years. The committee was satisfied with the quality of the audit concluded and has nominated, for reappointment at the annual general meeting, BDO South Africa Incorporated as the external auditor of Spear REIT Limited for the financial year ending 28 February 2023 and Mr Bernard van der Walt as the designated individual registered auditor who will undertake the audit on behalf of BDO South Africa Incorporated.

BDO South Africa Incorporated, being the audit firm, as well as Mr Bernard van der Walt, being the Spear group's individual auditor for the 2022 financial year, have been accredited on the JSE list of auditors in terms of the criteria in the JSE Listings Requirements. As required by section 3.84(g)(iii) of the JSE Listings Requirements, the committee has satisfied itself that BDO South Africa Incorporated and Mr Bernard van der Walt are suitable for reappointment as audit firm and individual auditor, respectively, by considering, *inter alia*, the information stated in paragraph 22.15(h) of the JSE Listings Requirements.

During the year under review the audit and risk committee reviewed a representation by the external auditors and, after conducting its own review, confirmed the independence of the auditors.

The committee is satisfied that in discharging its duties in terms of its mandate, together with the robust internal BDO South Africa Incorporated independence processes, that BDO South Africa Incorporated's independence is maintained and has not been impacted by tenure. The BDO South Africa Incorporated internal independence processes include periodic internal quality reviews as well as those conducted by IRBA; the rotation of the group audit partner and key component audit partners at least every five years; independence training; and monitoring of non-audit services.

## SIGNIFICANT AREAS OF JUDGEMENT

Many areas within the financial statements that require judgement form an integral part of the financial statements. The committee has assessed the significance of the assets and liabilities on the statements of financial position and related items that require significant judgement.

## EXPERTISE AND EXPERIENCE OF THE CHIEF FINANCIAL OFFICER AND THE FINANCE FUNCTION

The audit and risk committee performs an annual evaluation of the financial reporting function and procedures in Spear. The committee satisfied itself, in terms of paragraph 3.84(g)(ii) of the JSE Listings Requirements, that the financial reporting function had appropriate resources, skills, expertise and experience and that the internal financial controls and procedures of the company are operating effectively. The committee confirms that operating effectiveness was considered for all group companies and the committee had access to all information and reports to ensure its responsibility to adequately determine the operating effectiveness of group financial reporting control and procedures was executed. The committee also satisfied itself, in terms of paragraph 3.84(g)(i) of the JSE Listings Requirements, that Mr Christiaan Barnard, Spear's Chief Financial Officer, possesses the appropriate skills, expertise and experience to meet the responsibilities required for that position during his service as such.

## INTERNAL FINANCIAL CONTROLS

The audit committee oversaw the implementation of a combined assurance model and the external auditors and management reported to the audit and risk committee as to the efficiency of Spear group's internal financial controls. The audit committee reviewed these and other available reports regarding the group's risk management framework and confirms that no material breakdown of internal financial controls was identified during the current financial period.

## DISCHARGE OF RESPONSIBILITIES

The audit and risk committee determined that during the financial year under review it had discharged its legal and other responsibilities as governed in the board-approved terms of reference.

## INTEGRATED REPORT

### Annual financial statements

After review of the annual financial statements for the year ended 28 February 2022, the committee is of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act and IFRS as issued by the IASB, and fairly present the results of operations, cash flow and the financial position. On this basis, the committee recommended that the board of directors approve the annual financial statements for the year ended 28 February 2022.

### Integrated report

The committee reviewed this report, taking cognisance of material factors and risk that may impact the integrity thereof and recommended that the board of directors approve the integrated report for the year ended 28 February 2022.



Jalaloodien Ebrahim Allie  
Chair: Audit and risk committee

20 May 2022