



# Audit & Risk Committee Report

## Audit & Risk Committee Terms of Reference

The Audit & Risk Committee ("A&R Co") has adopted formal Terms of Reference as incorporated in the Board Charter which have been approved by the Board of Directors. The Terms of Reference are reviewed as necessary. The Committee has conducted its affairs in compliance with these Terms of Reference and has discharged its responsibilities contained therein.

## Committee members and attendance at meetings

The A&R Co is constituted as a statutory committee in terms of the provisions of section 94 of the Companies Act and has an independent role with accountability to both the Board and shareholders. In applying the recommendations of King III, the A&R Co consists of five independent, non-executive directors selected by the Board on the recommendation of the Remuneration & Nomination Committee ("R&N Co"). The Board elects the Chairman of the A&R Co.

The Deputy Group Chief Executive, Group Finance Officer, Chief Audit Executive, Company Secretary & Group Governance Officer, Group Risk & Sustainability Manager and representatives of the internal and external auditors attend meetings by invitation. The Chairman of the Board has a standing invitation to attend the Committee's meetings. From time to time other executives and directors of the Group attend meetings of the A&R Co as requested. The Committee has unrestricted access to the external and internal auditors.

In accordance with the Terms of Reference, the Committee meets at least four times annually, but more often if necessary. During the current financial year, the Committee met eight times. The minutes of these meetings are available for inspection by all directors. The chairman of the Committee provides the Board with a verbal report of the Committee's activities at each Board meeting.

The chairman of the Committee represents the A&R Co at the annual general meeting each year.

The Company Secretary & Group Governance Officer is also the secretary of the Committee.

The R&N Co, through its nomination process, ensures that members are sufficiently qualified and experienced in matters such as financial and sustainability reporting, internal financial controls, external and internal audit processes, corporate law, risk management, financial sustainability issues, IT governance as it relates to integrated reporting and governance processes.

The following table of attendance at A&R Co meetings reflects the Committee's meetings held during the year and the attendance of these meetings by its members during the year:

A&R Co member	28 August 2015	8 September 2015	21 October 2015	22 October 2015	1 December 2015	22 February 2016	2 March 2016	20 June 2016
John Buchanan (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓
Roy Andersen	✓	✓	✓	✓	✓	✓	✓	✓
Maureen Manyama	✓	✓	✓	✓	✓	✓	✓	✓
Babalwa Ngonyama*	n/a	n/a	n/a	n/a	n/a	n/a	n/a	✓
Sindi Zilwa**	Apology	Apology	Apology	Apology	Apology	✓	✓	Apology

\* Appointed to the Committee with effect from 1 April 2016.

\*\* Sindi Zilwa's inability to attend the meetings of the Committee scheduled for 21 October, 22 October and 1 December 2015 due to other commitments had been confirmed to Aspen a year in advance of these meetings. These meetings could, unfortunately, not be rescheduled.

The overall average attendance for the A&R Co meetings held during the year was 81,8%.

# Audit & Risk Committee Report *continued*

## Roles and responsibilities

The A&R Co has an independent role with accountability to both the Board and shareholders. The Committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other senior members of management.

The Committee is, *inter alia*, responsible for assisting the Board in discharging its duties in respect of the safeguarding of assets, accounting systems and practices, internal control processes and the preparation of the Group and Company Annual Financial Statements ("Annual Financial Statements") in line with the relevant financial reporting standards as applicable from time to time.

## Statutory duties

In the conduct of its duties, the A&R Co has performed the following statutory duties prescribed by the Companies Act:

- nominated and recommended to shareholders the appointment of the external auditor of the Company and the Group who is a registered auditor and who, in the opinion of the A&R Co, is independent of the Company and the Group;
- determined the fees to be paid to the auditor and the auditor's terms of engagement;
- ensured that the appointment of the auditor complies with the Companies Act, and any other legislation relating to the appointment of the auditor;
- determined the nature and extent of any non-audit services that the auditor may provide to the Group;
- pre-approved any proposed agreement with the auditor for the provision of non-audit services to the Group which are of a material nature as provided for in the Group's non-audit services policy;
- prepared this report in compliance with section 94(7)(f) of the Companies Act, which report has been included in the Annual Financial Statements by reference;
- stands ready to receive and deal with any concerns or complaints relating to the accounting practices and internal audit of the Company and the Group, the content or auditing of the Annual Financial Statements, including the summarised Group Annual Financial Statements contained in the Integrated Report, the internal financial controls of the Company and the Group or any related matter; and
- made submissions to the Board on any matter concerning the Company's and the Group's accounting policies, financial controls, records and reporting.

## External auditor

The Committee has satisfied itself that the external auditor, PricewaterhouseCoopers Inc, was independent of the Group, as required by the Companies Act, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

PricewaterhouseCoopers Inc has been the Group's external auditor since the Company's listing on the JSE in 1998. Tanya Rae was appointed as the Company's designated auditor for the June 2013 financial year and is set to step down after completion of the audit of the financial year ending 30 June 2017 in terms of the five-year designated auditor rotation provisions contained in the Companies Act. Sizwe Ntsaluba Gobodo Inc has been appointed to share in the auditing of the Company's South African subsidiaries.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the financial year ended 30 June 2016.

The external auditors are invited to and attend all A&R Co meetings and are required to meet independently with the A&R Co at least annually. Findings by the external auditors arising from their annual statutory audit are tabled and presented at an A&R Co meeting following the audit. The Committee endorses action plans for management to mitigate noted concerns. The external auditor has expressed an unqualified opinion on the Annual Financial Statements for the year ended 30 June 2016.

There is a formal procedure that governs the process whereby the external auditor is considered for non-audit services. The Committee approved the terms of the service agreement for the provision of non-audit services by the external auditor, and approved the nature and extent of non-audit services that the external auditor provided in terms of the agreed pre-approval policy. During the year an amount of R3 093 204 was paid to PricewaterhouseCoopers Inc. in respect of non-audit services, which is approximately 9% of the external audit fee paid for the year.

The Committee has nominated, for election at the annual general meeting, PricewaterhouseCoopers Inc as the external audit firm. Tanya Rae is the proposed designated auditor, responsible for performing the functions of auditor, for the 2017 financial year. The A&R Co has satisfied itself that the audit firm and designated auditors are accredited as such on the JSE list of auditors and their advisers.

# Audit & Risk Committee Report continued

## Internal financial controls

The key internal financial controls in operation for all significant operating businesses within the Group are documented in formalised financial internal control frameworks and these frameworks are maintained and updated by financial management during the course of the year or as part of the year end process.

An internal financial controls audit was not performed for Aspen Oss due to the implementation of a new IT system during the latter part of the financial year. The external audit review approach followed a substantive audit approach in conducting an audit of the Annual Financial Statements.

Based on the results of the formal documented review of the design, implementation and effectiveness of the Group's systems of internal financial controls conducted by Group Internal Audit, supported by approved outsourced internal audit service providers during the 2016 financial year and, in addition, considering information and explanations given by management and discussions with the external auditor on the results of their audits, no material breakdowns in the functioning of the internal financial controls were noted during the year under review.

The results of the audit tests conducted indicate that the internal financial controls provide a sound basis for the preparation of financial statements, subject to the scope limitations explained previously.

## Expertise and experience of the Financial Director and the finance function

The A&R Co has considered and is satisfied with the expertise and experience of the Deputy Group Chief Executive who performs the duties of the Company's Financial Director.

Furthermore, the Committee has considered, and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the Group's finance function and experience of the senior members of management responsible for the Group's finance function, including the Group Finance Officer.

## Annual Financial Statements

The A&R Co assists the Board with all financial reporting and reviews the Annual Financial Statements as well as trading statements, preliminary results announcements and interim financial information.

The A&R Co has reviewed the Annual Financial Statements of the Company and the Group and is satisfied that they comply with International Financial Reporting Standards.

## Going concern

The A&R Co reviewed a documented assessment by management of the going concern premise of the Group before concluding to the Board that the Group is a going concern and will remain so for the foreseeable future.

## Duties assigned by the Board

The duties and responsibilities of the members of the Committee are set out in the A&R Co Terms of Reference included in the Board Charter, which is approved by the Board.

The A&R Co fulfils an oversight role regarding the Group's Integrated Report and the reporting process, including the system of internal financial controls. It is responsible for ensuring that the internal audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its duties. Furthermore, the A&R Co oversees cooperation between the internal and external auditors.

During the year, the Committee met with the external auditors and with the Chief Audit Executive without management being present. No matters that required attention arose from these meetings.

The Committee also receives regular feedback from Aspen's Group Tax Committee which is charged with ensuring all Group companies implement the Group's tax philosophy and policies. Aspen's Group Tax Committee comprises the Deputy Group CEO, Group Finance Officer, the Head of Treasury and Head of Tax, who meet on a regular basis to discuss the status of the Group's tax affairs.

The Committee ensures that a combined assurance model is applied to provide a coordinated approach to all assurance activities.

The A&R Co is satisfied that it has complied with its legal, regulatory and other responsibilities.

# Audit & Risk Committee Report continued

## Internal audit

The A&R Co is responsible for overseeing Internal Audit and has considered and approved the internal audit charter and internal audit's annual risk-based audit plan.

Internal Audit reports centrally with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the Group's significant operations. Various financial internal control audits were outsourced to an auditing firm, ensuring that specialist resources are utilised for financial internal control assessments. The internal audit plan follows a three-year cycle and is revised regularly in accordance with the risk profiles as discussed and tabled at the A&R Co meetings with any changes to the internal audit plan being approved by the Committee.

Each internal audit conducted is followed up by a detailed report to operational and senior management, including recommendations on aspects requiring improvement. The Chief Audit Executive is responsible for reporting the findings of the internal audit work against the agreed internal audit plan to the A&R Co at each Committee meeting. Copies of the detailed reports are also provided to the A&R Co together with an overall summary of the audit result for each audit.

The Chief Audit Executive has direct access to the A&R Co, primarily through its chairman, and attends A&R Co meetings by invitation.

The A&R Co is responsible for the appointment and removal of the Chief Audit Executive. The Committee is also responsible for the assessment of the performance of the Chief Audit Executive and the Internal Audit function. The Committee has considered and is satisfied with the effectiveness of the internal audit function.

An external assessment of Internal Audit was performed during the 2012 financial year in line with Aspen's requirement for an external review every five years. The assessment indicated positive results and a general conformance with the Institute of Internal Auditors Standards. A further assessment has been scheduled for the 2017 financial year.

## Whistle-blowing

The whistle-blowing arrangements are approved and monitored by the A&R Co and the Social & Ethics Committee ("S&E Co"). The Company Secretary & Group Governance Officer receives and deals with any concerns or complaints, whether from within or outside the Group, through an independent specialised tip-offs call centre and tables this information and the results of follow-ups at each S&E Co meeting. Financial-related tip-offs are then also tabled at the A&R Co meetings.

Both committees are satisfied that instances of whistle-blowing were appropriately dealt with.

## Integrated and sustainability reporting

The A&R Co considered the Group's Integrated Report and the sustainability information as disclosed therein to evaluate the integrity of reported information and for consistency with the Annual Financial Statements. The A&R Co has discussed the sustainability information with management.

During the 2016 financial year, the A&R Co again considered the results of the sustainability audits conducted by Environmental Resources Management and limited assurance engagements performed on selected key performance indicators by Environmental Resources Management, PricewaterhouseCoopers Inc, as the Group's external auditors, and Internal Audit.

The Committee is satisfied that the sustainability information, as presented in the 2016 Integrated Report online, is reliable, consistent and fairly presented.

## Risk management

Oversight of the Group's risk management function has been assigned to the A&R Co.

The Board considers risk management to be a key process in the responsible pursuit of strategic objectives and in the effective management of related material issues across the Group. Aspen's management culture is underpinned by effective risk identification and mitigation activities which are applied, on a day-to-day basis, through a system of internal controls, monitoring mechanisms and relevant stakeholder engagement activities. In accordance with the Group's risk philosophy, business activities and business plans are aligned to the Group's governance, economic, environmental and social aspirations.

# Audit & Risk Committee Report *continued*

The Board of Directors is responsible for the governance of risk across the Group, for setting the risk appetite and for monitoring the effectiveness of Aspen's risk management processes. This responsibility is delegated to the A&R Co.

The Group's integrated risk management model considers strategic, operational, financial and compliance risks. Reputational risks and uncertain risks, which are inherent to Aspen's business and to the pharmaceutical industry in general, are also identified, monitored, recorded and appropriately managed. Risk indicators and risk appetite are reviewed and approved by the Board on an annual basis or more frequently where required. The boards of directors of Aspen's subsidiary companies are responsible for oversight of the risk management processes implemented at the relevant business units and for monitoring the effectiveness of the implemented risk management systems to ensure business continuity.

Evaluations of material risks and of the effectiveness of the risk management process were conducted during the year by the Group Executive Risk Forum and the findings of these evaluations were reported to the A&R Co. Following a comprehensive review of risks and mitigating controls at the A&R Co meeting, the Committee formulated an overall conclusion and submitted a formal risk review report to the Board. The Committee's report included an opinion on the overall status of material residual, reputational and uncertain risks with reference to the adequacy of related mitigating controls and to the approved risk appetite. The report also presented an opinion on the effectiveness of the risk management process implemented in the Group, supported by the internal audit report.

In arriving at its opinion, the A&R Co undertook the following activities:

- monitored the implementation of the Group risk policy and Group risk plan as approved by the Board;
- reviewed and considered the activities and reports of the Group executive risk forum;
- reviewed and considered business unit risk reports presented to the Committee;
- reviewed and considered the report by Internal Audit on the integrity and robustness of the Group's risk management processes;
- reviewed and considered the status of financial, IT and internal controls, for the year under review, as reported by the Group's internal and external auditors; and
- reviewed and approved the adequacy of the Group's insurance cover.

At year end, Aspen's Board was satisfied with the status and effectiveness of risk governance in the Group and adequacy of mitigation plans for material risks. Internal Audit found the implemented risk management process to be effective and has made recommendations for improvement which will be implemented as part of the continuous improvement process.

## **Recommendation of the Integrated Report and related sustainability information for approval by the Board**

At its meeting held on 24 October 2016, the A&R Co reviewed and recommended the Integrated Report and related sustainability information, as well as the Annual Financial Statements for approval by the Board of Directors.

### **John Buchanan**

*A&R Co Chairman*

24 October 2016