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Audit & Risk Committee report 2020

# Audit & Risk Committee report

The table below reflects a summary of the activities undertaken by the Audit & Risk Committee during the year in terms of its terms of reference and in support of the Board, with the resulting material outcomes from these activities:

Activities	Outcome
<b>Engagement with the Group's external auditors</b>	<ul style="list-style-type: none"> <li>• Concluded an extensive request-for-audit-proposals ("RFAP") and selection process in respect of the appointment of an external audit firm and designated auditor of the Company and the Group to replace PwC. Following this process, the Audit &amp; Risk Committee, selected Ernst &amp; Young Inc. ("E&amp;Y") as the audit firm, and Derek Engelbrecht as designated auditor, to be recommended to shareholders for appointment, having satisfied itself of the capacity and independence of this recommended firm and designated auditor;</li> <li>• Determined the fees to be paid to the auditor and the auditor's terms of engagement;</li> <li>• Ensured that the appointment of the auditor complies with the Companies Act, the applicable JSE Listings Requirements, and any other legislation relating to the appointment of the auditor;</li> <li>• Determined the nature and extent of any non-audit services that the auditor may provide to the Group; and</li> <li>• 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; and</li> <li>• Calls for the necessary reports and letters issued by the Independent Regulatory Board ("IRBA") of South Africa, a summary of the firm's monitoring processes and outcome of any legal or disciplinary proceedings which may have been instituted against the firm or designated auditor by the IRBA.</li> </ul>
<b>Compliance with Companies Act requirements</b>	<ul style="list-style-type: none"> <li>• 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;</li> <li>• 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</li> <li>• Made submissions to the Board on matters concerning the Company and the Group's accounting policies, financial controls, records and reporting.</li> </ul>
<b>Internal financial controls, internal audit and combined assurance</b>	<ul style="list-style-type: none"> <li>• Assessed internal financial controls and concluded that no material breakdowns in the functioning of the internal financial controls were noted during the year under review and that the results of the audit tests conducted indicate that the internal financial controls provided a sound basis for the preparation of financial statements;</li> <li>• Considered and confirmed its satisfaction with the effectiveness, competency, capacity and independence of the internal audit function, as well as the expertise and experience of the Chief Audit Executive; and</li> <li>• Ensured that a comprehensive combined assurance model was applied to the Group's key risks so as to provide a coordinated approach to all assurance activities and confirmed that there were no significant areas of overlap or assurance gaps and the levels of assurance were considered appropriate.</li> </ul>
<b>Oversight of risk management</b>	<ul style="list-style-type: none"> <li>• Monitored the implementation of the Group risk policy and Group risk plan as approved by the Board;</li> <li>• Reviewed and considered the activities and reports of the Group executive risk forum and Tax Committee;</li> <li>• Reviewed and considered business unit risk reports presented to the Committee;</li> <li>• Reviewed and considered the report by internal audit on the integrity and robustness of the Group's risk management processes;</li> <li>• Reviewed and recommended for approval the Group's risk appetite framework;</li> <li>• Reviewed and considered the status of financial, information technology and cybersecurity measures and internal controls for the year under review, as reported by the Group's internal and external auditors; and</li> <li>• Reviewed and approved the adequacy of the Group's insurance cover.</li> </ul>
<b>Integrated reporting</b>	<ul style="list-style-type: none"> <li>• Reviewed 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; and</li> <li>• Considered financial-related tip-off reports and management actions to address these.</li> </ul>
<b>Assurance in respect of financial expertise of the Financial Director and finance function</b>	<ul style="list-style-type: none"> <li>• Confirmed the expertise and experience of the: <ul style="list-style-type: none"> <li>– Deputy Group Chief Executive who performs the duties of the Company's Financial Director; and</li> <li>– Group's finance function and the senior members of management responsible for the Group's finance function, including the Group Finance Officer.</li> </ul> </li> </ul>

# Audit & Risk Committee report continued

## Audit & Risk Committee Terms of Reference

The Committee 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, as well as in the Companies Act.

## Committee members and attendance at meetings

The Committee 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. The Audit & Risk Committee currently consists of four independent non-executive directors elected by shareholders at the annual general meeting, on the recommendation of the Board. The Board elects the Chairman of the Audit & Risk Committee.

The Deputy Group Chief Executive, Group Finance Officer, Chief Audit Executive, Group Tax Executive, Company Secretary & Group Governance Officer, Group Risk & Sustainability Manager and representatives of the internal and external auditors attend meetings by invitation. From time to time other executives and directors of the Group attend meetings of the Committee 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 year under review, the Committee met eight times, with most of the additional meetings being held in order for the RFAP process to be implemented and finalised. Each of the scheduled meetings is preceded by a pre-meeting during which the Chairman ascertains the key issues requiring consideration and to be addressed. All directors have a standing invite to attend meetings and the minutes of meetings are made available to all directors by means of a database of documents they can access [online](#). The Chairman of the Committee provides the Board with a verbal report of the Committee's activities at each Board meeting. 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 Chairman of the Committee represents the Audit & Risk Committee at the annual general meeting each year.

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

The Remuneration & Nomination Committee, 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 Audit & Risk Committee meetings reflects the Committee's meetings held during the year and the attendance of these meetings by its members during the year:

<b>Audit &amp; Risk Committee</b>	28 August 2019	10 September 2019	23 October 2019 <sup>(1)</sup>	23 October 2019 <sup>(2)</sup>	18 November 2019	<b>28 February 2020</b>	<b>28 May 2020</b>	<b>18 June 2020</b>
Linda de Beer	√	√	√	√	√	√	√	√
Ben Kruger	√	√	√	√	√	√	√	√
Babalwa Ngonyama (Chairman)	√	√	√	√	√	√	√	√
Sindi Zilwa**	√	√	√	√	√	√	√	√
Roy Andersen*	√	√	N/A	N/A	N/A	N/A	N/A	N/A

\* Mr Andersen retired from the Board and Committee with effect from 30 September 2019.

\*\* Ms Zilwa stepped down as a member of the Committee with effect from 15 October 2020.

The overall average attendance for the Audit & Risk Committee meetings held during the year was 100%.

# Audit & Risk Committee report continued

## Roles and responsibilities

The Committee has an independent role with accountability to both the Board and our 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 in line with the relevant financial reporting standards as applicable from time to time. The Committee's responsibilities can be divided into two broad categories:

## Statutory duties

### External auditor

The Committee has satisfied itself that the external auditor for the 2020 financial year, 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.

The Committee was satisfied with the quality of the external audit work performed by PricewaterhouseCoopers Inc. in respect of all of the Group's subsidiaries, including Aspen's South African subsidiaries which were audited by both PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc. on a shared basis, and that the firm and relevant designated auditor were accredited with the JSE list of auditors and the Independent Regulatory Body of Auditors and hold the requisite certifications and registrations. In recommending PricewaterhouseCoopers Inc. for appointment as proposed external auditor for the 2020 financial year, the Committee called for and considered:

- The decision letter and findings report of the inspection report issued in respect of the firm by the IRBA of South Africa on both the firm and the designated individual director;
- A summary of the firm's monitoring procedures; and
- The outcome and summary of any legal or disciplinary proceedings which may have been instituted by the IRBA against the firm and designated individual auditor.

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 2020.

In line with the South African Regulatory Board of Auditors' rule issued on mandatory audit firm rotation and the RFAP process followed to replace PricewaterhouseCoopers Inc., the Committee agreed to recommend to shareholders the appointment of E&Y as the external audit firm for the Company and Group and recommended the appointment of Derek Engelbrecht as the designated auditor, responsible for performing the functions of auditor, for the 2021 financial year. Motlanalo Inc. has been recommended for appointment in respect of the joint audit of Pharmicare Limited, along with E&Y and the full audit of Fine Chemicals Corporation (Pty) Limited – two of the Company's South African subsidiaries in the forthcoming year.

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 373 936 was paid to PricewaterhouseCoopers Inc. in respect of non-audit services, which is approximately 7% of the external audit fee paid for the year. The external auditor is invited to and attend all Audit & Risk Committee's deliberations, except those which may present a conflict of interest to this audit firm or the designated auditor. The external auditor is required to meet independently with the Committee at least annually. A schedule of findings by the external auditor arising from the annual statutory audit is tabled and presented at an Audit & Risk Committee 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 2020.

## 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.

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 2020 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.

# Audit & Risk Committee report continued

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

The Committee 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, Gus Attridge CA(SA).

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 Audit & Risk Committee 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 Committee has reviewed the Annual Financial Statements as well as trading statements, preliminary results announcements and interim financial information of the Company and the Group and is satisfied that they comply with International Financial Reporting Standards. The Committee also considered the JSE's report titled "Combined Findings of the JSE Proactive Monitoring of Financial Statements: Reviews Done 2011 to 2019", dated 11 October 2019, as well as the report entitled, "Activities of the Financial Reporting Investigation Panel in 2019" dated 22 October 2019.

The following key audit matters were considered were considered by the Audit & Risk Committee in relation to these Annual Financial Statements:

Matter	Outcome
<b>Impairment of intangible assets</b>	The Audit & Risk Committee reviewed and interrogated all elements supporting the valuation and measurement of goodwill and indefinite life intangible assets which included stress testing the process and key assumptions underpinning the valuations. The process of reviewing the classification of intangible assets and the criteria for determining whether these assets met the definition of indefinite life intangible assets was extensively reviewed and the Committee was satisfied that the classification and valuation of indefinite life intangible assets was materially correct and fairly presented. Rigorous impairment testing of tangible and intangible asset values was once again performed, resulting in total impairments of R1,447 million, of which R1,339 million related to intangible asset impairments.
<b>Divestment of the Company's Japanese business to Sandoz</b>	On 31 January 2020, the Group completed the divestment of its Japanese Business to Sandoz, a division of Novartis. The accounting treatment of the Japanese Business divestment was considered as a key audit matter as it represents a material transaction to the Group and because of the quantum of, and complexity and judgement required in calculating the loss on disposal. In addition to this, the classification of the Japanese Business as a discontinued operation would result in additional disclosures in the Group Statement of Comprehensive Income in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The Audit & Risk Committee was satisfied that the Group's accounting treatment in respect of this divestment was appropriate and that all additional disclosure requirements have been met.

## Going concern

The Audit & Risk Committee reviewed a documented assessment by management of the going concern premise of the Group before recommending to the Board that the Group is a going concern and will remain so for the foreseeable future. The Committee reviews all proposed intercompany funding proposals and distributions to shareholders in terms of sections 44, 45 and 46 of the Companies Act, recommending such funding arrangements to the Board for consideration. As part of the going concern assessment for the financial year, the Board considered the potential implications of COVID-19 and agreed that, while the situation is still evolving, it will not have a significant adverse effect on Aspen's business. There has also been no immediate material impact on Aspen's business that requires adjustments or disclosure in the financial statements for the year ended 30 June 2020. The impact is, however, being assessed on a continuing basis.

## Duties assigned by the Board

The duties and responsibilities of the members of the Committee are set out in the Audit & Risk Committee Terms of Reference included in the Board Charter and which is approved by the Board.

## Integrated reporting

The Committee 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 Committee oversees cooperation between the internal and external auditors.

During the 2020 financial year, the Committee 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 2020 Integrated Report, is reliable, consistent and fairly presented.

# Audit & Risk Committee report continued

## Tax and treasury oversight

The Committee also receives regular feedback from both our Group Tax Committee and Group Treasury Committee. The Group Tax Committee is charged with ensuring all Group companies implement the Group's tax philosophy and policies and comprises the Deputy Group Chief Executive, Group Finance Officer, Group Financial Executives and Group Tax Executive, who meet on a regular basis to discuss the status of the Group's tax affairs. The Group Treasury Committee is charged with monitoring the Group's performance in managing the risks identified in the Group treasury policy and comprises the Deputy Group Chief Executive, Group Finance Officer, Group Corporate Finance Executive and Group Treasury Executive. The executives responsible for the Group's tax and treasury functions attend the quarterly meetings of the Committee to report on notable matters arising within the areas of their responsibility during the quarter.

Significant tax and treasury matters are brought to the attention of the Committee should they be raised between regular meetings.

## Internal audit

The Audit & Risk Committee 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 Audit & Risk Committee 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 Audit & Risk Committee at each Committee meeting. Copies of the detailed reports are also provided to the Audit & Risk Committee together with an overall summary of the audit result for each audit.

The Chief Audit Executive has direct access to the Committee, primarily through its Chairman, and attends Audit & Risk Committee meetings by invitation.

The Audit & Risk Committee 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. The Committee has also considered and is satisfied with the expertise and experience of the Chief Audit Executive.

An external and independent assessment of the internal audit function was performed in May 2017, in line with our requirement for an external review every five years. The assessment indicated positive results and the function's general conformance with the Institute of Internal Auditors Standards.

## Combined assurance

We apply a combined assurance approach to the Group's key risks to validate the effectiveness of controls related to risk responses and mitigation activities and thereby corroborate management's self-assessment of the effectiveness of existing risk responses. This provides the Board with a corroborated evaluation of the risk responses and mitigation controls through a combination of the following five lines of assurance:

- The organisation's line functions that own and manage risks – first line of assurance;
- Specialist functions that facilitate and oversee risk management and compliance – second line of assurance;
- Internal assurance providers – third line of assurance;
- Independent external assurance providers – fourth line of assurance; and
- Governing body and committees – fifth line of assurance.

The required level of combined assurance is determined by the effectiveness of the risk response activities and the impact of such risk to the Group. No significant areas of overlap or assurance gaps have been identified during the year and the levels of assurance are considered appropriate.

## Whistle-blowing

Our whistle-blowing arrangements are approved and monitored by the Audit & Risk Committee and the Social & Ethics Committee. The Group Ethics Committee (a management committee consisting of four senior functional executives) receives and deals with any concerns or complaints, whether from within or outside Aspen, through an independent specialised tip-offs call centre, and tables this information and the results of follow-ups at each Social & Ethics Committee meeting. Financial and internal control-related tip-offs are then also tabled at the Audit & Risk Committee meetings.

Both committees are satisfied that instances of whistle-blowing received during the year were appropriately dealt with.

# Audit & Risk Committee report continued

## Risk governance

Oversight of the Group's risk management function has been assigned to the Audit & Risk Committee.

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. Our 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.

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 our risk management processes. This responsibility is delegated to the Audit & Risk Committee.

The Group's integrated risk management model considers strategic, operational, financial and compliance risks. Reputational risks and uncertain risks, which are inherent to our 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 our 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 Committee. Following a comprehensive review of risks and mitigating controls at the Audit & Risk Committee 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 Audit & Risk Committee 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, after having considered the claims for the prior year, a summary of the proposed insurance arrangements for the ensuing year and the insurable, but uninsured risks.

At year end, the 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.

## I & T governance

The Committee periodically reviews the Group's maturity in respect of IT governance by considering reports from the Group Digital Technology function and assurance as provided by the internal audit function in accordance with the approved internal audit plan.

A focus area for the Committee during this year has been on performing a critical evaluation of the Group's Information & Technology governance framework and on developing an appropriate roadmap for refining and expanding this framework to better evaluate, direct and monitor Aspen's Information & Technology assets as well as to align IT services with the Group's current and future business needs. Further information in respect of this initiative is detailed on [page 81](#) of our Integrated Report. Business system implementation by various Aspen businesses and functional departments across the Group are in progress and are being monitored by the I&T Steering Committee. A programme to mitigate infrastructure technology security risks and maturity is being coordinated centrally and includes the introduction of supporting policies and procedures. Mitigation plans have been introduced to address the risk of material operational and disruptive incidents. No material incidents of this nature occurred during the year.

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

At its meeting held on 21 October 2020, the Audit & Risk Committee reviewed and recommended the Integrated Report and related sustainability information, as well as the Annual Financial Statements for approval by the Board of Directors.

The Audit & Risk Committee is satisfied that it has complied with its statutory responsibilities and the responsibilities assigned to it by the Board.

**Babalwa Ngonyama CA(SA)**

*Audit & Risk Committee Chairman*



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