



Audit & Risk  
Committee Report 2021



# Audit & Risk Committee Report

The full mandate, role and responsibilities of the Audit & Risk Committee in terms of its terms of reference have been detailed on the Corporate Governance and Risk Management page of Aspen's website at [www.aspenpharma.com](http://www.aspenpharma.com).

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

Activities	Outcome
<p>Engagement with the Group's external auditor</p>	<ul style="list-style-type: none"> <li>Ernst &amp; Young Inc ("EY") recommended for reappointment as auditor, and Derek Engelbrecht as the designated auditor, having satisfied itself of the capacity and independence of this firm and the designated auditor;</li> <li>Ensured that there were no scope limitations in respect of audit work performed by EY and that there were no factors that impacted the independence of EY as the external auditors;</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 (during the year, R2 million was paid to EY in respect of the provision of non-audit services, which is approximately 4% of the external audit fee paid for the year);</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;</li> <li>Meets separately with EY (without presence of management) at least twice a year, or more regularly as may be required;</li> <li>Called for the necessary reports and letters issued by the Independent Regulatory Board of Auditors ("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 and satisfied itself that there were no areas of concern in respect of the reports, letters and summaries considered; and</li> <li>Noted that the external auditor had expressed an unqualified opinion on the Annual Financial Statements for the year ended 30 June 2021.</li> </ul>
<p>Compliance with Companies Act requirements</p>	<ul style="list-style-type: none"> <li>Prepared this report in compliance with section 94(7)(f) of the Companies Act. The full mandate, roles and responsibilities of the Committee, as per its formally adopted terms of reference, may be accessed online at: <a href="https://www.aspenpharma.com/corporate-governance-and-risk-management/">https://www.aspenpharma.com/corporate-governance-and-risk-management/</a></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, 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>
<p>Internal financial controls, internal audit and combined assurance</p>	<ul style="list-style-type: none"> <li>Confirmed that, 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 2021 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;</li> <li>Confirmed that the results of the audit tests conducted indicate that the internal financial controls provide 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>
<p>Oversight of risk governance and risk management</p>	<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 on by the Group's internal and external auditors;</li> <li>Reviewed and approved the adequacy of the Group's insurance cover; and</li> <li>Confirmed its satisfaction with the status and effectiveness of risk governance in the Group and the adequacy of mitigation plans for material risks, recommending this as such to the Board.</li> </ul>



# Audit & Risk Committee Report continued

Activities	Outcome
Integrated reporting	<ul style="list-style-type: none"> <li>Will review 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, prior to its release in due course; and</li> <li>Considered financial-related tip-off reports and management actions to address these.</li> </ul>
Assurance in respect of financial expertise of the Financial Director and finance function	<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 Finance 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> <li>Noted that Gus Attridge would retire as Deputy Group Chief Executive with effect from 31 December 2021 and confirmed its satisfaction with the appointment of Sean Capazorio (the current Group Finance Officer) as Group Chief Financial Officer, who will perform the duties of the Company's Finance Director, with effect from 1 January 2022.</li> </ul>
Information & Technology ("I&T") Governance	<ul style="list-style-type: none"> <li>Reviewed the Group's maturity in respect of I&amp;T governance, 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;</li> <li>Performed a critical evaluation of the Group's I&amp;T governance framework to better evaluate, direct and monitor Aspen's I&amp;T assets, as well as to align IT services with the Group's current and future business needs; and</li> <li>Monitored the programme to mitigate infrastructure technology security risks and maturity being coordinated centrally and maintained oversight of the mitigation plans introduced to address the risk of material operational and disruptive incidents.</li> </ul>

## Committee members and attendance at meetings

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:

Audit & Risk Committee	26 August 2020 (1)	26 August 2020 (2)	28 August 2020	8 September 2020	21 October 2020 (1)	21 October 2020 (2)	23 November 2020	23 February 2021	26 February 2021	8 March 2021	21 June 2021
Linda de Beer	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ben Kruger	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Babalwa Ngonyama (Chair)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sindi Zilwa	✓	✓	✓	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Ms Zilwa stepped down as a member of the Committee with effect from 15 October 2020. Ms Zilwa served the Committee with distinction during her tenure on this Committee and I speak on behalf of the entire Committee in thanking her for her dedicated service during this time.

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

## Annual Financial Statements for the 2021 financial year

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 for the year under review and is satisfied that they comply with International Financial Reporting Standards. The Committee also considered the JSE's report titled "Reporting back on the proactive monitoring of financial statements in 2020", dated 19 February 2021, and received management's confirmation that the necessary and appropriate actions were taken to ensure the findings and recommendations of this report are implemented and adopted within the Group as appropriate.

## Internal controls confirmation

The Committee has received assurance from Group internal audit on the work performed in the financial year under review to support the Group Chief Executive and Deputy Group Chief Executive sign off on internal controls, as required by section 3.84(k) of the JSE Listings Requirements. This section requires a statement by the Group Chief Executive and Deputy Group Chief Executive (in his capacity as the Finance Director of the Company), confirming that internal financial controls are in place to ensure that material information has been provided to effectively prepare the financial statements. Furthermore, confirmation is to be given that the internal financial controls are adequate, effective, and can be relied upon in compiling the Annual Financial Statements, and if not, that the deficiencies in the design and operational effectiveness of the internal financial controls have been disclosed to the Committee and the external auditors, and that the necessary remedial action has been taken.



# Audit & Risk Committee Report continued

The Group undertakes a rigorous self-assessment process with the scope including all affiliates. The self-assessment review is formally signed off by the financial head of each subsidiary as well as being reviewed and approved by the Group finance team. The self-assessment includes financial and disclosure controls, internal financial and operating controls, business performance related representations and a detailed fraud assessment review. The positive assurance outcome provided strong support for meeting the requirements of section 3.84(k) of the JSE Listings Requirements.

The Committee is of the view, based on the representations made by Group internal audit, the Group Chief Executive and the Deputy Group Chief Executive, as well as the other related processes mentioned, that the internal financial controls in place for the Group were adequate and effective during the period under review.

## Key audit matters

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

Matter	Outcome
Impairment of intangible assets	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 intangible asset values was once again performed resulting in net impairments of R982 million.
Divestment of the assets related to the European Thrombosis business	On 27 November 2020, the Group completed the divestment of the assets related to the commercialisation of the European Thrombosis business to Mylan Ireland Limited. In terms of the transaction, the disposal group included the inventory and related intellectual property. This divestment arrangement also included underwriting certain inventory supply prices for a limited period and performance incentives. The proceeds of the divestment were R12,4 billion resulting in a profit on disposal of R0,2 billion. The Committee was satisfied that the Group's accounting treatment in respect of this divestment, and related inventory, was appropriate and that all relevant additional disclosure requirements have been met.

## Materiality consideration

Overall Group materiality, which was based on consolidated profit before tax from continuing operations and adjusted for non-recurring items, was set at R313 million. Profit before tax was used since it is the benchmark against which the performance of the Group is most commonly measured by users and is a generally accepted benchmark in industry.

## Group scoping for external audit purposes

The scope of EY's audit for the financial year under review took into consideration the structure of the Group, the respective accounting processes and controls and the industry in which Aspen operates. The assessment included consideration of financially significant components, based on indicators such as their contribution to Group assets, revenue and profit before tax.

Based on this assessment, 17 financially significant Aspen businesses ("Scope A Businesses") were identified. These businesses were subjected to full scope audits of their financial reporting information, which in aggregate account for a significant or material portion of the Group's revenue, profit before tax and total assets.

From the remaining Aspen businesses, 11 ("Scope B Businesses") were subjected to analytical reviews, while the balance of businesses and Group subsidiaries were deemed immaterial and subject to statutory audits, where applicable.

In aggregate, the Scope A and B Businesses contribute 90% of Group profit before tax, 87% of Group revenue and 81% of total Group assets.

## Going concern

The Committee has, for the year under review, considered the documented assessment by management of the going concern premise of the Group and has, following this consideration and the combined assurance obtained, recommended to the Board that the Group is a going concern and will remain so for the foreseeable future. As part of this going concern assessment, the Board considered the potential implications of COVID-19 in order to determine that it will not have a significant adverse effect on Aspen's business. These potential implications are assessed on a continuing basis.

## Recommendation of the Annual Financial Statements for approval by the Board

At its meeting held on 4 October 2021, the Audit & Risk Committee reviewed and recommended the Annual Financial Statements for approval by the Board of Directors.

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

**Babalwa Ngonyama CA(SA)**  
Audit & Risk Committee Chair



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