

Audit committee report



Doris Dondur | Chairman of the audit committee



The committee is pleased to present its report for the financial year ended 31 December 2016 as required by the South African Companies Act 71 2008 (the Act) and recommended by the King III Report on Governance Principles for South Africa 2009 (King III).

Terms of reference

The committee has adopted a formal detailed charter which is in line with King III and the Act. The charter is reviewed at least annually and is approved by the board as it is amended. Annually, a work plan is drawn up outlining the committee's statutory obligations and progress is monitored to ensure these are fulfilled. The committee has discharged all its responsibilities as set out in that charter.

Membership

The audit committee was appointed by the shareholders at the annual general meeting on 2 June 2016. The members are all independent non-executive

directors, who collectively have the necessary financial skills and experience to fulfil their responsibilities on this committee.

In the review period, membership of the audit committee comprised the following:

- Ms Doris Dondur – independent non-executive director, chairman
- Mr Mahomed Gani – independent non-executive director
- Dr Claudia Manning – independent non-executive director

A brief profile of each member appears on the board of directors' page of this integrated report and the company's website.

The committee met nine times in the review period, with attendance shown on page 69.

The chief executive officer; financial director; chief internal audit officer; group risk officer and external auditors are permanent invitees to each meeting.

During the year, closed sessions were also held for committee members only, as well as with internal audit, external audit, risk, finance and management.

Execution of responsibilities

The committee has executed its duties and responsibilities during the financial year in line with its mandate for the company's accounting, internal auditing, internal control and financial reporting practices.

Its key areas of responsibility include:

- Performing its statutory duties as prescribed by the Act and Listings Requirements of the JSE
- Considering the performance of the company each quarter
- Considering the solvency and liquidity of the company, quarterly, for recommendation to the board
- Annual financial statements, ensuring fair presentation and compliance with International Financial Reporting Standards (IFRS) and the Act, and recommending these to the board for approval
- Compilation of the integrated report, ensuring content is accurate and reliable, and includes all relevant material operational, financial and non-financial information
- Accounting policies of Basil Read, ensuring they are consistently applied
- Critical accounting estimates and judgements
- Effectiveness of the internal control environment
- Effectiveness of the internal audit function, approving the internal audit plan and monitoring adherence to this plan

- Recommending the appointment and remuneration of external auditors, reviewing the scope of their audit, their reports and pre-approving all non-audit services over 10% of the audit fees for a particular year in terms of the policy, confirming the independence and objectivity of the external auditors, ensuring the scope of additional services does not impair their independence
- Reports of the internal and external auditors
- Evaluating the experience, skills, qualifications and performance of the financial director
- Evaluating the effectiveness of the finance function
- The governance of information technology and effectiveness of the company's information systems
- Policies and procedures for preventing fraud.

In carrying out these responsibilities, the committee is satisfied it has fulfilled its duty to the board and has assisted the board in carrying out related duties to all stakeholders. Areas of specific focus are listed below.

External audit

The committee has satisfied itself through enquiry that the auditor of Basil Read Holdings Limited is independent as defined by the Act. The committee, in consultation with executive management, reviewed and accepted the audit fee for the 2016 financial year. The fee is considered appropriate for the work that could reasonably have been expected at that time.

A formal procedure governs the process by which the external auditor is considered for providing non-audit services. Each engagement letter for non-audit work may not exceed 20% of the audit fees for the particular year; and non-audit work above 10% of the audit

fees for that year is reviewed and pre-approved by the committee. Routine work assignments, including auditor letters required for tendering purposes, below the value of 10% of the audit fees for that year do not need to be approved by the committee, but the chairman is notified.

Meetings were held with the external auditor without management present, and no matters of concern were raised.

The committee has reviewed the performance of the external auditors and has nominated, for approval at the annual general meeting, PwC Inc as the external auditor for the 2017 financial year. Mr Sizwe Masondo was appointed in the year under review as the designated auditor for the 2016 financial year, effective from 2 June 2016. Due to a delay in Mr Sizwe Masondo's JSE registration process, Mr Jean-Pierre van Staden was appointed to fulfil this role as an interim measure and Mr Sizwe Masondo will resume this role for the 2017 financial year.

Internal audit

The internal audit function is a key element of the integrated assurance structure. Basil Read has a well-established in-house internal audit department with a direct reporting responsibility to the committee. An in-house internal audit structure is supplemented by a co-sourced internal audit model to ensure the optimal efficiency of this function.

KPMG was reappointed as the internal audit co-sourced partner. The work of the internal audit function is guided by the company's risk register and previous internal and external audit reports, including management and audit committee inputs. The committee approves the annual internal audit assurance plan and monitors quarterly progress against the plan.

The committee determines the purpose, authority and responsibility of the internal

Audit committee report continued

audit function in a charter that is reviewed periodically.

The internal control systems of the company are designed to provide reasonable assurance on the maintenance of proper accounting records and reliability of financial information. These systems are monitored by internal audit which reports its findings and recommendations to the committee and to senior management. Where weaknesses in specific controls are identified, management undertakes to implement appropriate corrective actions.

Both internal and external audit have unrestricted access to the committee, its chairman and the chairman of the board, ensuring that auditors are able to maintain their independence. Both internal and external auditors report at audit committee meetings. The committee also meets with both internal and external auditors separately, at least annually, and as required, without other invitees being present.

Financial director and finance function review

The committee has considered and is satisfied that, in terms of section 3.84(h) of the JSE Listings Requirements, the financial director, Talib Sadik, has the appropriate skills, expertise and experience to meet the responsibilities of this position. The committee has also in terms of King III assessed the expertise, resources and experience of the finance function. Due to company restructuring, the finance function is being aligned to the new operating model and vacancies have been filled to ensure efficiency, thereby enabling the committee to express its satisfaction with the

experience, expertise and adequacy of resources in the finance function.

Internal financial control

The committee is responsible for assessing the systems of internal financial controls, after considering:

- Reports from internal audit, external auditors and management
- Significant issues raised by the internal and external audit process, including how these were resolved.

Based on these processes and assurances from the various assurance providers in the three lines of defence as basis, the committee is satisfied with the adequacy and effectiveness of the system of internal financial controls.

Annual financial statements

The annual financial statements were prepared using appropriate accounting policies that conform to IFRS. The committee therefore recommended the approval of the annual financial statements to the board, which approved these on 31 March 2017.

Comments on key audit matters, as addressed by PwC in its external auditor's report

To provide stakeholders with further insights into its activities and considerations around key audit matters as reported by the external auditors, the committee elaborates on these important aspects, as detailed below.

Construction contract revenue recognition

The company has significant long-term contracts in the construction and services divisions. Recognising profit on

construction and long-term services contracts in accordance with International Accounting Standards (IAS) 11: *Construction contracts* is based on the stage of completion of contract activity.

This matter is considered material given the significant judgement involved in preparing suitable estimates of forecast costs and revenue on contracts.

The committee assessed the methodology and judgement applied by management, focusing on:

- Computation of the percentage of completion
- Provision for future losses on loss-making contracts
- Claims included in revenue that are required to be reliably measurable before recognition is supported by IFRS.

The committee discussed the matter with the external auditors to understand their related audit procedures and evidence to support the judgements. Subsequent to this review, the committee concluded that the methodology and judgement applied by management are in accordance with IFRS.

Recoverability of deferred tax assets

Basil Read has recognised deferred tax assets in the financial statements resulting from deductible temporary differences and cumulative assessed losses as disclosed in note 11 of the financial statements.

Deferred tax assets have been recognised to the extent that it is probable that future taxable profits will be available, against which the temporary differences and assessed losses can be utilised.

Due to the significant estimation uncertainty applied to cash flows, assessments of the recoverability of deferred tax assets are considered to be an area of significance to the audit.

The committee assessed the methodology, assumptions and judgements applied by management as set out in note 1.D of the annual financial statements and discussed this matter with the external auditors to understand their related audit processes and views. After this comprehensive assessment, the committee is satisfied with the reasonability of the quantum of deferred tax assets as accounted for in the annual financial statements.

Impairment of construction and roads cash-generating unit

The accounting standards require assets to be tested for impairment when there is an impairment indicator. The current year losses within the construction and roads cash-generating units (CGUs) are considered to be possible indicators of impairment.

The committee reviewed management's impairment assessment which incorporates judgements based on assumptions about future profitability for the roads division, against which appropriate long-term growth rates and discount rates must be applied. This exercise is highly judgemental and was used to support the carrying value of the construction and roads cash-generating units (CGUs), which includes goodwill of R88.9 million.

After careful consideration, the committee determined that the disclosure, assumptions and judgements applied are appropriate and concluded that no impairment was required in 2016.

Going concern

Management is required to assess the going concern assumption used in preparing the annual financial statements. This assessment involves making a judgement, at a particular point, about the future outcome of events or conditions that are inherently uncertain. Management has used all available information at the time of making the assessment.

Management believes the going concern assumption is appropriate in preparing the annual financial statements for the year ended 31 December 2016.

The committee considered the group's and company's status as going concerns in preparing the annual financial statements. The committee has reviewed the company's cash flow forecast for the 12 months ending 31 December 2017 and, based on this review, was able to provide its declaration to the board that the company is a going concern.

Integrated report

The committee has evaluated the integrated report for its consistency with operational and other information known to the committee. It has recommended the approval of the integrated report, which was formally given.



Doris Dondur
Chairman of the audit committee

31 March 2017