

Audit Committee report

for the year ended 31 March 2014

Background

The Audit Committee is guided by a charter that is informed by the Companies Act and is approved by the Board as and when it is amended. The revised charter includes the specific requirements as set out in the Companies Act (2008), pertaining to audit committees.

Purpose

The purpose of the Audit Committee is:

- To assist the Board in its evaluation of the overall adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the management of the business in compliance with all applicable legal requirements, corporate governance and accounting standards.
- To provide a forum for communication between the Board, management, and the internal and external auditors.
- To review and confirm the independence objectively and effectiveness of the internal and external auditors, and to review and approve the engagement of the external auditors for non-audit work.
- To introduce such measures as in the Committee's opinion may serve to enhance the reliability, integrity and objectivity of financial information, statements and affairs of the Group.
- To provide support to the Board on the risk management of the Group through the establishment of a Risk Committee.

- To monitor compliance of the Group with legal requirements and the Group's code of ethics.
- To ensure a high standard of Corporate Governance is adhered to at all times within the Group.
- To review and monitor the internal audit function.

The Audit Committee has further established audit committees at all major divisions which meet on a quarterly basis and which report back to the Audit Committee through the Group CEO and CFO.

Membership

The Committee members were appointed at the annual general meeting of the Company on 16 August 2013. The Committee comprises solely of non-executive directors, with all three full members being independent non-executive directors. The members are:

DI Samuels (*Chairman*)

LR Sherrell

JS Mthimunya (Resigned 12 September 2013)

RA Wally (Appointed as Committee member by the Board on 12 September 2013)

JD Wiese (alternate to LR Sherrell and RA Wally)

The Audit Committee members are considered to be independent of executive management.

Shareholders will be requested to approve the re-appointment of the members of the Audit Committee at the annual general meeting scheduled for 19 August 2014.

Attendance at meetings by audit committee members during the year was as follows::

	10 Jun 2013	10 Sep 2013	7 Nov 2013	20 Feb 2014	8 Apr 2014
DI Samuels* (<i>Chairman</i>)	✓	✓	✓	✓	✓
JS Mthimunya (<i>Member</i>)	✓	✓	Resigned	Resigned	Resigned
LR Sherrell (<i>Member</i>)	✓	✓	✓	✓	✓
JD Wiese (<i>Alternate member</i>)	✓	✓	n/a	n/a	n/a
RA Wally (<i>Member</i>)	n/a	✓	✓	✓	✓
C Barnard (<i>FD</i>)	✓	✓	✓	✓	✓
A Goldstone (<i>CEO</i>)	✓	✓	✓	✓	✓
CEW Walters (<i>CEO - BMG</i>) *	✓	✓	✓	✓	✓
S Carter (<i>Deloitte</i>) *	✓	n/a	✓	✓	n/a
AS Sinclair (<i>CEO - CEG</i>) *	✓	✓	✓	✓	✓
D Conroy (<i>Chief Audit Executive</i>) *	n/a	n/a	n/a	✓	✓
T Marray (<i>Deloitte</i>) *	n/a	n/a	n/a	✓	n/a
GM Chemaly (<i>Company Secretary</i>)	n/a	n/a	n/a	✓	✓

* By invitation

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In addition to members, the Chairman of this Committee may request personal or written representation from Group and Company directors as well as internal and external audit.

External audit

In terms of section 90 of the Companies Act (2008), the Committee nominated Deloitte & Touche as the independent auditor and SBF Carter as the designated partner, who is a registered independent auditor, for appointment for the 2014 audit. This appointment was approved by shareholders at the annual general meeting on 16 August 2013. The Committee has satisfied itself through enquiry that the auditor of Invicta is independent as defined by the Companies Act (2008), as amended or replaced, and as per the standards stipulated by the auditing profession.

Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate their independence.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, nature and scope of the audit function and audit plan for the 2014 financial year. The budgeted fee was considered appropriate for the work that could reasonably have been foreseen at that time. The final fee will be agreed on completion of the audit. Audit fees are disclosed in note 4 on page 85 of the 2014 Integrated Annual Report. There is a formal procedure that governs the process whereby the auditor is considered for non-audit services, and each engagement letter for such work is reviewed and approved by the Committee. Meetings are held with the auditor where management is not present and no matters of concern were raised.

The Committee has again nominated, for approval at the annual general meeting, Deloitte & Touche as the external auditor and T Marrayday as the designated auditor for the 2015 financial year. The Committee confirms that the auditor and designated auditor are accredited by the JSE.

Risk Committee Report

Background

Responsibility for managing the Group risk lies ultimately with the Board. However, the boards of subsidiary companies, executive committees and management at operational level assist the Board in discharging its responsibilities in this regard by identifying, monitoring and managing risk on an ongoing basis.

Risk management specifically includes the consideration of:

- the risk profile and management of strategic and operational risk within the Group;
- the risk profile and risk management of major projects and acquisitions;
- the adequacy of self-insurance and external insurance programs; and
- the risk profile and management of information technology.

Risk management

The Board through the Risk Committee, which is a sub-committee of the Audit Committee, has identified a number of key risk areas which it believes require monitoring and detailing to stakeholders, these are summarised below –

Strategic risk review

The Group has internally held further strategic risk evaluations at both Group and divisional levels. The results of this exercise have allowed management and the Board to reprioritise risks and consequentially the actions taken to mitigate these. The Committee monitors the progress of the implementation of the above processes, with written submissions and presentations being done by management at least annually.

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The Risk Committee continues to monitor and evaluate the risk reports provided by the various operational risk committees and to report on these plus any Group risks and Group strategies formulated to the Audit Committee and the Board.

Exchange rate fluctuations

Most of the Group's businesses involve the importation of product and, accordingly, changes in exchange rates can and do significantly affect the performance of operations. To date the Board has adopted the policy of hedging all its material foreign exchange exposures, increased volatility in the Rand value has further confirmed that this approach adopted is the correct one in the current environment.

Product supply

Based on the highly competitive markets in which the Group operates, specific focus is given to sourcing competitively priced quality products around the world. Directors and senior management have specific programmes on an annual basis, including the visiting of selected international trade fairs and supplier functions, to benchmark existing product ranges and to source new lines. The Group has established permanent buying as well as quality assessment operations in sourcing regions which are material to the Group's purchases.

Distribution network and infrastructure

The distribution of the Group's products is critical to its sales performance and takes place through a wide and entrenched network of its own outlets as well as third party distributors. The support, communication and business model used to govern these relationships, enjoys primary focus at the operating entities' executive committee meetings, and may involve direct liaison with the relevant parties by the non-executive directors of the Board where appropriate. The efficiency and viability of these different distribution arrangements are continuously monitored and are restructured as appropriate.

Trade and funding facilities

The availability of both trade and funding facilities are strategic to the ongoing performance and success of the Group. The Board monitors and controls these on an ongoing basis, and will continue to raise capital as needed based on funding requirements.

Skills and leadership

The Group, through ongoing initiatives and training programs, endeavors to attract, retain and empower a work force that strives for continuous improvement and excellence in servicing our customer base. The Group has a strong focus on leadership and ensuring that we have the right leadership and skills present in all our businesses.

Geographical expansion

With the challenges in the mining and manufacturing sectors within South-Africa, the Group will continue considering both international and African investments as part of its expansion strategy in order to continually grow and diversify exposure to markets and expand its customer base.

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Annual financial statements

In view of the Audit Committee having fulfilled its mandate, it recommended the financial statements for approval to the Board. The Board subsequently approved the financial statements, which will be open for discussion at the forthcoming annual general meeting.

Group financial director

As required by the JSE Listings Requirements, the Committee confirms that the Group and Company's finance director, Mr C Barnard, has the necessary expertise and experience to carry out his duties.



DI Samuels

Chairman of the Audit Committee

12 June 2014