DLC Audit Committee report

I am pleased to present the report of the DLC Audit Committee (the committee) which incorporates the activities and functions of the Investec Limited and Investec plc Audit Committees for the financial year ended 31 March 2020.

The report will address the role and the key areas of focus of the DLC Audit Committee. In addition to outlining the structure of the group’s Audit committees, some insights are included on how decisions are made and where judgement was applied to conclude on significant matters during the financial period.

DLC Audit Committee and the DLC BRCC

The DLC Audit Committee and the DLC BRCC are chaired by different independent non-executive directors. David Friedland chairs the DLC BRCC. The DLC Audit Committee and the DLC BRCC continue to capture all significant issues effectively while minimising any overlap. These committees have met all legal and regulatory requirements from a composition and independence perspective. Given the synergies and nature of matters considered by the committees, their membership is such that an element of commonality persists. The DLC Audit Committee chair and members are also members of the DLC BRCC.

The DLC Audit Committee and the DLC BRCC work closely together in fulfilling their objectives.

Committee performance

The performance of the DLC Audit Committee was assessed as part of an internal board effectiveness evaluation process and it was concluded that the committee continues to function effectively.

Looking ahead

In advancing the DLC Audit Committee efforts of the prior year, focus will continue to be centred on the impact, oversight, governance and disclosure in relation to IFRS 9.

In addition, there will be continued consideration of the independence of the internal auditor, the external auditor and audit quality measures.

The DLC Audit Committee will furthermore continue to focus on the combined assessment of the impact of COVID-19 on the economy and the consequent impact on financial systems and reporting, including viability, results of operations and financial position.

DLC Audit Committee

Zarina Bassa
Chair of the DLC Audit Committee

Key areas addressed in FY 2020

- Considered the accounting and operational impact of COVID-19 and mitigating steps taken, including going concern, liquidity and viability
- Oversaw the impact, governance and disclosure as it relates to IFRS 9. A specific focus was placed on the impact COVID-19 had on the application of IFRS 9
- Oversaw the regulatory compliance and the resulting accounting of the demerger of Asset Management
- Monitored audit quality and audit partner accreditation looking at results of firm and engagement partner regulator reviews and/or internal quality control
- Considered the external auditor’s independence
- Monitored close out of internal and external audit findings
- Held joint DLC Audit Committee and DLC BRCC meetings to cover changes to the IFRS 9 macro economic scenarios and probabilities for 2020 and the impact of COVID-19
- Reviewed succession for key internal audit members
- Oversight over regulatory compliance and the compliance programme
- Conducted an External Quality Assurance Review (EQAR) of internal audit
- Revised the policy on non-audit services
- Considered key risk and reporting exposures faced by the group
- Concluded on the proposed approach to Mandatory Audit Firm Rotation (MAFR) for Investec Bank Limited and Investec Limited

Key focus areas for FY 2021

- Consider the impact of COVID-19 and mitigating steps taken in this regard, including impacts on business resilience, liquidity and credit loss provisioning
- Initiate tender and appointment process to facilitate MAFR
- Consider the appointment of external auditors
- Monitor external audit quality and independence
- Continue to focus on the judgements, oversight, governance and disclosure of the consequences of IFRS 9
- Continue to effectively communicate with the chairs of audit committees of subsidiaries including attendance at sub-committees
- Evaluate the effectiveness of the internal audit function
- Overseer, together with the DLC BRCC, the management of IT Risk and cyber-security through the IT Risk and Governance Committee
- Focus on ensuring that the group’s financial systems, processes and controls are operating effectively and evolve with the changes in the industry
- Consider the implication of changes in accounting standards and regulatory requirements and how management intends to implement
- Continue to exercise oversight over subsidiary audit committees in remote locations
Structure of the Investec group’s Audit Committees

In terms of the DLC structure, the DLC board has mandated authority to the DLC Audit Committee to be the Audit Committee of the Investec group. The DLC Audit committee oversees and considers group audit-related matters and has responsibility for audit-related matters that are common to Investec plc and Investec Limited, and works in conjunction with these two committees to address all group reporting.

The Investec plc board has mandated authority to the Investec plc Audit Committee, and the Investec Limited board has mandated authority to the Investec Limited Audit Committee to be the Audit Committees for the respective companies and their subsidiaries. The IBP and IW&I (UK) Audit Committees and the IAM Global Audit Committee, up to the point of the demerger, reported to the Investec plc Audit Committee and the IBL and IW&I (SA) Audit Committees report to the Investec Limited Audit Committee. The DLC audit committee chairman chairs each of the Investec plc, Investec Limited and Investec Bank Limited Audit Committees.

The committee receives regular reports from the group’s subsidiary Audit Committees as part of the oversight of subsidiary Audit Committees. The DLC Audit Committee chair is also the chairman of the Investec Bank Mauritius (IBM) and Investec Bank Limited (IBL) Audit Committees and a member of the Investec Bank plc and the Investec Life Audit Committee.

Role and responsibilities

The DLC Audit Committee is an essential part of the group’s governance framework to which the board has delegated the following key functions:

- overseeing the group’s financial reporting process and risks, ensuring the integrity thereof and satisfying itself that any significant judgements made by management are sound
- appointing, managing and overseeing the relationship with the group’s external auditors, including the quality control, effectiveness and independence of the external audit function
- reviewing the group’s internal controls and assurance processes, including those of internal audit
- manage and oversee the performance, conduct, quality and effectiveness of the group’s internal audit functions
- oversight of group compliance
- overseeing the group’s subsidiary Audit Committees, including in remote locations
- the DLC Audit Committee is supported by the Investec plc and Investec Limited Audit Committees
- determining the fees to be paid to external auditors
- managing the level and nature of non-audit services provided by the auditors
- dealing with any concerns from outside and inside Investec regarding accounting, reporting and financial control
Composition and meetings

The DLC Audit Committee is comprised entirely of independent non-executive directors who must meet predetermined skill, competency and experience requirements. The members’ continuing independence is assessed annually by the DLC Nomdac, which in turn makes a recommendation on the members’ independence to the board. The DLC Nomdac and board have concluded that the DLC Audit Committee has the appropriate balance of knowledge and skills for them to discharge their duties. In particular, all of the members are chartered accountants and by virtue of their experience in the banking, financial services, financial management and audit sectors, the members collectively have the competence relevant to the sector in which the group operates. Further details of the experience of the members can be found in their biographies on pages 108 to 111.

Meeting schedule and attendance

- During the financial year ended 31 March 2020, the DLC Audit Committee, Investec plc Audit Committee and Investec Limited Audit Committee each met four times during the year.
- The Committee further met during the year to sign off on the Annual Financial Statements of Investec plc and Investec Limited.
- The Committee met twice in June 2019 to sign off the 2019 Annual Report for the group.
- A Special Combined IBL Audit Committee and DLC Audit Committee meeting was held in May 2019. The meeting was convened to discuss the mining and Hong Kong exposures of the group.
- A regulatory and accounting update session was held by the committee with Ernst & Young to ensure that the committee keeps abreast of all current and impending developments.
- A Combined DLC Audit Committee and DLC BRCC meeting was held in February 2020 to discuss changes to the IFRS 9 scenarios and probabilities for 2020 with a further update to scenarios in April 2020 to cover the impact of COVID-19.
- Audit quality meetings were held with the DLC auditors, Ernst & Young LLP and Ernst & Young Inc. and the joint auditors of Investec Limited, Ernst & Young Inc. and KPMG Inc. to consider and conclude on Audit quality and JSE partner accreditation.
- A Trilateral meeting was attended with the South African Prudential Authority to discuss internal and external audit findings.

### DLC Audit Committee
- (4 meetings in the year)

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<thead>
<tr>
<th>Members</th>
<th>Committee member since</th>
<th>Eligible to attend</th>
<th>Attended</th>
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<tr>
<td>ZBM Bassa (chair)</td>
<td>1-Nov-14</td>
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<tr>
<td>LC Bowden*</td>
<td>11-Dec-18</td>
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<tr>
<td>PA Hourquebie</td>
<td>14-Aug-17</td>
<td>3</td>
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<tr>
<td>PG Sibiya**</td>
<td>9-Aug-19</td>
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<thead>
<tr>
<th>Investec plc Audit Committee</th>
<th>Eligible to attend</th>
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<th>Investec Limited Audit Committee</th>
<th>Eligible to attend</th>
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* LC Bowden stepped down from the DLC Audit Committee, the Investec plc Audit Committee and the Investec Limited Audit Committee with effect from 8 August 2019.
** PG Sibiya was appointed as a member of the DLC Audit Committee, the Investec plc Audit Committee and the Investec Limited Audit Committee with effect from 9 August 2019.
^ Where a director is unable to attend a meeting they receive papers in advance and have the opportunity to provide comments to the chairman of the committee.

Other regular attendees
- Joint chief executive offers of the group#
- Group finance director
- Head of risk
- Heads of internal audit – Investec Limited and Investec plc
- Heads of finance
- External auditors
- Group company secretaries
- Heads of IBL, IBP and IW&I
- Head of corporate governance
- Head of tax

# Fani Titi became the sole chief executive officer on 16 March 2020 following the demerger of the Asset Management business from the group.
Areas covered by the DLC Audit Committee

The significant matters addressed by the committee during the financial year ended 31 March 2020, and in evaluating the annual report and financial statements are described on the following pages.

Key audit matters

Key audit matters, are those matters in the view of the DLC Audit Committee that:

- required significant focus from the committee
- were considered to be significant or material in nature requiring exercise of judgement; or
- matters which were otherwise considered to be subjective from an accounting or auditing perspective.

The following key audit matters were deliberated by the DLC Audit Committee during the year:

<table>
<thead>
<tr>
<th>Key Audit Matters</th>
<th>What we did</th>
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</table>
| Impact of COVID-19                                                                | • considered the known impact of Covid-19 on the economy in both geographies and the resulting impact on the applicability of the scenarios, the judgements and estimates used by management to prepare the annual financial statements
• The areas most impacted by COVID-19 include:
  - going concern and the viability statement including liquidity
  - expected credit loss (ECL) assessment (IFRS 9 macro-economic scenarios, probabilities and staging)
  - impact on quality of earnings
  - fair value measurement and the resulting IFRS 13 Fair Value Measurement disclosures
• The COVID-19 pandemic is of an unprecedented scale and has severely impacted the global economy and businesses across all industries. There is a significant degree of uncertainty about the further spread of the virus and the impact it will have on the world economy |
| Compliance with COVID-19 guidance provided by regulators and standard setters in the UK and SA | • received and reviewed a memorandum prepared by Investec management summarising the guidance issued in all jurisdictions and how management intends to comply with this guidance
• through the review of the ECL process, confirmed the application of the guidance on the accounting principles to be applied
• through participation of audit committee members on the remuneration committee and the board of directors, confirmed that there will be no cash bonus payments to executive management and that a dividend will not be declared
• As part of the response to the COVID-19 global crisis, banking regulators in the UK and South Africa issued guidance and revised regulations regarding the application of accounting principles, liquidity and capital management |
| Accounting for the demerger of Investec Asset Management                           | • reviewed the initial impact valuation of Investec Asset Management as performed by a professional external valuation specialist
• reviewed regular updates on the demerger from group finance, group tax and legal to enable it to evaluate the appropriateness of the accounting and the regulatory and legal compliance of the demerger
• considered the appropriateness of accounting principles applied to account for the demerger and of the disclosures of the transaction
• reviewed the technical accounting memorandum prepared by group finance
• convened a special audit committee meeting to approve the accounting principles applied in the preparation of the circular and the content of the circular issued
• reviewed and confirmed the appropriateness of the accounting treatment of the demerger and the gain thereon, and the accounting treatment of the remaining holding as an associate at a group level
• in September 2018, the directors announced their intention to demerge the Asset Management (rebranded Ninety One) business and on 16 March 2020 the demerger was completed. Subsequent to the demerger the group holds a 25% investment in Ninety One which is accounted for at the group level as an associate |
<table>
<thead>
<tr>
<th>Key Audit Matters</th>
<th>What we did</th>
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<tbody>
<tr>
<td>Fair value of level 3 instruments and the resulting IFRS 13 Fair Value Measurement (IFRS 13) disclosure</td>
<td>• received presentations on the material investments across the group including an analysis of the key judgements and assumptions applied and approved the valuation adjustments proposed by management for the year ended 31 March 2020</td>
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<td>• challenged and debated significant subjective exposures and assumptions including:</td>
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<td>• the valuation principles applied with the valuation of level 3 investments (unlisted and private equity investments) and fair value loans. Particular focus was given to the impact of COVID-19 on these valuation principles</td>
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<td>• fair value of exposures in industries highly affected by COVID-19</td>
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<td>• exposures in respect of Southern African mining loans and investments</td>
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<td>• management’s plans for work out of such exposures, client history, geographical and sectoral exposure and assumptions around collateral valuation and debt restructures</td>
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<td>• the appropriateness of the IFRS 13 disclosures on fair value</td>
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<tr>
<td>Uncertain tax and other legal matters</td>
<td>• received regular updates from group tax, group finance and legal on uncertain tax and legal matters to enable it to probe and consider the matters and evaluate the basis and appropriateness of the accounting treatment</td>
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<td>• analysed the judgements and estimates made and discussed the potential range of outcomes that might arise to determine the liability, if any, for uncertain tax provisions as required by International Financial Reporting Interpretations Committee (IFRIC) 23</td>
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<td>• concluded on the appropriateness of the IAS37 accounting treatment, the scenarios and sensitivities, and any overall disclosure in the financial statements. Conferred with and received confirmation from the external auditors on the overall treatment</td>
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<tr>
<td>Impairment of investments in associates</td>
<td>• received and reviewed technical accounting memoranda prepared by group finance on the material investments in associates across the group addressing the appropriateness of the carrying value of the investments and the impairment assessment performed by management. This included an analysis of the key judgements and assumptions applied</td>
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<td>• evaluated the appropriateness of the accounting and disclosure relating to significant judgements and estimates, valuation methods and assumptions applied</td>
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<tr>
<td>Going concern and the viability statement</td>
<td>• undertook an assessment on behalf of the board, and recommended to the board that it was appropriate for the financial statements to be prepared on a going concern basis</td>
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<td>• in this process considered reports on the group’s budgets and forecasts, profitability, capital, liquidity and solvency, scenario stress testing and the impact of legal proceedings; if any</td>
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<td>• considered the results of various stress testing based on different COVID-19 economic scenarios and the possible impact of COVID-19 on the ability of Investec to continue as a going concern</td>
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<td>• specifically, as part of the demerger approval process, concluded that following the demerger of the Asset Management business from the Investec group, the group would have adequate resources to continue as a going concern for the foreseeable future</td>
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<td>• jointly with the DLC BRCC, assessed the reasonableness of and approved the viability statement based on three-year capital plans produced by management</td>
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### Key Audit Matters

<table>
<thead>
<tr>
<th>Expected credit loss (ECL) assessment</th>
<th>What we did</th>
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| • The appropriateness of the allowance for expected credit losses is highly subjective and judgemental. The impact of COVID-19 and the resultant economic impacts in South Africa and the UK have resulted in additional key judgements and assumptions being made during the current year | • challenged the level of ECL and the assumptions used to calculate the ECL provisions held by the group  
• reviewed and monitored the group’s calculation of expected credit losses, trends in staging changes, model changes, scenario updates, post-model adjustments, and volatility. Specific review and consideration was given to the macroeconomic scenarios used to calculate the COVID-19 ECL overlays and the staging applied for COVID-19 restructured positions  
• convened a dedicated combined audit and risk committee meeting to consider economic scenarios adjusted for the forecasted potential impact of COVID-19, probabilities and weightings, principles applied, changes to governance over models and ECL principles applied  
• assessed ECL experienced against forecast, and considered whether the level of ECL was appropriate. Particular focus was given to COVID-19 restructured positions (payment holidays) and sectors’ highly impacted by COVID-19, the legacy portfolio and exposures which are specifically affected by the negative current macro-economic environment  
• evaluated the IFRS 9 disclosures for relevance and compliance with IFRS  
• assessed the appropriateness of the ECL provision raised by the group for large exposures in entities publicly perceived to be in financial distress  
• reviewed the appropriateness of the management overlay recognised in the UK. The overlay was calculated by applying a weighted consideration of two macro-economic scenarios to account for the impact of COVID-19. The committee specifically scrutinised the assumptions applied in the COVID-19 short and the COVID-19 long scenario  
• reviewed the appropriateness of the forward looking macro-economic scenarios used in the measurement of ECL in South Africa. The macro-economic scenarios were updated to capture the wide-reaching impacts of the sovereign downgrade to sub investment grade as well as the impact of COVID-19. The committee further evaluated the appropriateness of the management ECL overlay to capture the anticipated impact of South Africa’s national lockdown on the commercial real estate portfolio |

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<tr>
<th>Accounting for equity linked notes and deposit products issued by the Structured Products Desk in the UK</th>
<th>What we did</th>
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</table>
| • Investec issues equity linked notes and deposit products through the Structured Products Desk in the UK. These products require complex accounting principles to be applied and involve a degree of subjectivity surrounding the inputs to their valuations | • received and reviewed a technical accounting memorandum prepared by group finance on the accounting treatment of the equity linked notes and deposits. This included an analysis of the key judgements and assumptions applied  
• evaluated the appropriateness of the disclosure provided relating to significant judgements and estimates, valuation methods and assumptions applied  
• received confirmation from external audit on the appropriateness of the accounting treatment |
### Key Audit Matters

#### Accounting for strategic actions completed by the Group
- Investec elected to separately disclose the financial impact of certain strategic actions including the financial impact from group restructures and the rundown of portfolios where operations have ceased. Due to the significant change in the nature of the entity’s operations, it was considered appropriate to present the information on a like-for-like basis, resulting in reclassifications for related items which were previously included in operating income and operating costs in the income statement.

- received and reviewed a technical accounting memorandum prepared by group finance on the appropriateness of the classification and measurement of the strategic actions. This included an analysis of the key judgements and assumptions applied.

- evaluated the appropriateness of the disclosure provided relating to significant judgements and estimates, valuation methods and assumptions applied.

- considered the impact of such items on the quality of earnings.

#### External audit, audit quality and mandatory audit firm rotation (MAFR)
- managed the relationship with the external auditors including their re-appointment.

- considered and approved a revised policy in respect of non-audit services rendered by external audit.

- pre-approved all non-audit services provided by external audit and confirmed the services to be within the approved non-audit services policy.

- assessed the independence and objectivity of the external auditors.

- met with key members of Ernst & Young LLP and Ernst & Young Inc. (auditors of DLC) and Ernst & Young Inc. and KPMG Inc. (auditors of Investec Limited) prior to every Audit Committee, to discuss the 2019/2020 audit plan, key areas of focus, findings, scope and conclusions.

- met separately with the leadership of Ernst & Young Inc., KPMG Inc., and Ernst & Young LLP to discuss auditor accreditation, independence, firm quality control, results of internal and external inspections and audit quality.

- discussed external audit feedback on the group’s critical accounting estimates and judgements. Noted the increased involvement of specialists from the audit firms in the more complex matters in the current year.

- discussed external auditors’ draft report on specific control areas and the control environment ahead of the 2020 financial year end. The committee considered and discussed with the auditors accounting in respect of significant accounting transactions such as the IAM demerger, structured products and the rundown of the Hong Kong branch.

- the committee approved the external audit plan, audit fee and the main areas of focus.

- had a closed session with the auditors without management.

In line with the conditions set out in section 94(8) of the South African Companies Act, and based on its assessment documented above, using the criteria set out by the King IV Code and the JSE Listings Requirements, the DLC Audit Committee confirms its satisfaction with the performance and quality of external audit, the external auditors and lead partners.

The Committee evaluated the legal and regulatory MAFR requirements to rotate external auditors. An audit rotation plan was developed and approved by the Committee that stipulates the timing of the audit tender process, the transition and the effective date of the rotation in each of the jurisdictions Investec operates in. According to the plan, Investec initiated the audit tender process to rotate one of the joint external audit firms of Investec Bank Limited and Investec Limited.

Additional information regarding the procedures performed by the Committee on external audit and the audit rotation plan is provided on page 142.
Other matters considered by the DLC Audit Committee:
Apart from financial reporting matters, the committee has responsibility for oversight of the effectiveness of the group’s internal controls, the appointment, performance and effectiveness of internal audit, and the performance, objectivity and independence of the external auditors.
The committee considered the following matters during the financial year ended 31 March 2020:

<table>
<thead>
<tr>
<th>Area of focus</th>
<th>What we did</th>
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| IFRS                              | • reviewed the impact of the first-time adoption of IFRS16 and IFRIC 23 and the related disclosures  
                                  • The 2019 annual financial statements of the Investec group were subject to a JSE pro-active monitoring review. The 2018 annual financial statements of the Investec group were subject to a review by the FRC. The outcome of the reviews confirmed compliance with IFRS and regulatory disclosure requirements |
| Related Party Disclosures         | • considered and reviewed related party disclosures in relation to the group  
                                  • DLC Nomdac reviewed key related party transactions during the year and ensured that policies are being complied with |
| Regulatory Compliance and Reporting| • received regular reports from the group regulatory compliance function and reviewed the adequacy of the scope and the effectiveness of the regulatory compliance processes applied.  
                                  This included the evaluation of the quality of regulatory reporting, the regulatory compliance universe, the scope and the integrity of the regulatory compliance process, the adequacy of internal regulatory compliance systems and processes, and the consideration and remediation of any findings by the external auditors and regulator |
| Post-balance sheet disclosure     | • considered the need for post-balance sheet disclosures. Specifically considered the impact of COVID-19 in the affected jurisdictions that Investec operates in |
| Viability Statement               | • assessed the reasonableness of and approved the viability statement in a specifically convened combined DLC Audit and BRCC |
| Fair, balanced and understandable reporting | • the committee undertakes an assessment on behalf of the board, in order to provide the board with assurance that it can make the statement  
                                  • met with senior management to gain assurance that the processes underlying the compilation of the annual financial statements were appropriate  
                                  • conducted an in-depth, critical review of the annual financial statements and, where necessary, requested amendments to disclosure  
                                  • assessed disclosure controls and procedures  
                                  • confirmed that management had reported on and evidenced the basis on which representations to the external auditors were made  
                                  • obtained input and assurance from the external auditors  
                                  • the committee concluded that the processes underlying the preparation of the annual report and financial statements for the financial year ended 31 March 2020 were appropriate in ensuring that those statements were fair, balanced and understandable  
                                  • the committee recommended to the board that the 2020 annual report and financial statements were fair, balanced and understandable. |
| Combined Assurance Model          | • satisfied itself with the appropriateness of the design and effectiveness of the combined assurance model applied which incorporates the various disciplines of risk management, legal and regulatory compliance. Satisfied itself with the levels of assurance and mitigants so that, taken as a whole, there is sufficient and appropriate assurance regarding mitigants for the key risks |
| Internal controls                 | • attended and received regular reports from the DLC BRCC. Based on this reporting, evaluated the impact of an evolving risk environment, including operational risk, on the internal control environment  
                                  • evaluated and tracked the status of the most material control issues identified by internal and external audit and tracked the progress of the associated remediation plans against agreed time frames  
                                  • reviewed reports from the Independent Audit Committees of the Asset Management business (up until the demerger) and Investec Wealth & Investment, both of which are attended by the DLC Audit committee chair  
                                  • evaluated reports on the internal control environment from the internal and external auditors  
                                  • attended and received regular reports from the IT Risk and Governance Committee regarding the monitoring and effectiveness of the group’s IT controls. Considered updates on key internal and external audit findings in relation to the IT control environment  
                                  • reviewed and approved the Combined Assurance Model, ensuring completeness of risks and adequacy and effectiveness of assurance coverage |
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<tr>
<th>Area of focus</th>
<th>What we did</th>
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| Business control environment | • received regular reports from subsidiary audit sub-committees  
  • assessed reports on individual businesses and functions on their control environment, scrutinised any identified control failures and closely monitored the status of remediation plans  
  • received updates from senior management, and scrutinised action plans following internal audit findings  
  • requested confirmation from management regarding the remediation of any issues identified including the time frames and accountability for remediation |
| Internal audit               | • scrutinised and reviewed internal audit plans, risk assessment, methodology, staffing and approved the annual plan. Assumed responsibility for the monitoring and following up of internal audit control findings, including IT, and ensured appropriate mitigation and timeous close out  
  • received regular reports from internal audit on all significant issues identified  
  • monitored audit quality in relation to internal audit  
  • monitored delivery of the agreed audit plans, including assessing internal audit resources  
  • reviewed success for key internal audit roles  
  • tracked in parallel the levels of high and moderate risk audits, and monitored related remediations plans  
  • met with the heads of internal audit prior to each audit committee meeting, without management being present, to discuss the remit of internal audit and any issues arising from the internal audits conducted  
  • approved the internal audit plans, methodology and deliverables  
  • confirmed that it was satisfied with the performance of the internal audit function  
  • approved the risk assessments and rotational audit plan  
  • reviewed the EQAR conducted by an external provider during 2020, with no material issues impacting the DLC internal audit function  
  • received an opinion from internal audit on internal controls and the integrated risk management framework as part of the year-end sign-off process  
  • considered the succession, skills matrix and the Continuous Professional Development (CPD) of Internal Audit  
  • had a closed session of the audit committee with internal audit without management present  
  • the internal audit quality assurance program is designed in line with the Institute of Internal Auditors (IIA) International Professional Practices Framework (which includes the International Standards for the Professional Practice of Internal Auditing and the Code of Professional Conduct, including the Code of Ethics)  
  • the quality assurance program is multi-faceted, and includes the attraction, development and retention of adequately skilled staff that exercise proficiency and due professional care, adherence to the global internal audit governance framework and audit methodology, oversight and detailed review of every audit engagement and a quarterly post engagement quality assurance program  
  • the results of the post engagement quality assurance program inform any training interventions required within the team and the results are consolidated and presented to the Audit Committee on an annual basis |
| Finance function             | • discussed and concluded that the finance director has the appropriate expertise and experience and the finance function has sufficient resources and skills to perform the financial reporting for the group |
External audit

The DLC Audit Committee has the following responsibilities:

- To nominate a registered auditor for the group who, in the opinion of the audit committee, is independent
- To consider the audit fees to be paid to the auditors and the scope of the engagement
- To determine the nature and extent of any non-audit services that the auditor may provide
- To satisfy itself of the independence and objectivity of the external auditors
- To satisfy itself of the experience and the capacity of the audit teams

Auditor appointment

In terms of Section 90 of the South African Companies Act an auditor is prohibited from providing certain specified services for a client on which a statutory audit is performed. The Audit Committee has considered the following in determining the appointment of external auditors:

- The regulatory need for joint auditors
- The state of the audit profession in South Africa
- The level of specialisation, footprint, capacity and experience required by a firm in performing a joint audit of a bank or financial services group which is of systemic importance
- Level of quality control within the audit firms as evidenced by the results of internal and external regulatory reviews performed on audit firms and engagement partners
- The level of inherent risk in auditing a Financial Services group and the consequent audit risk
- Independence of the External Auditor
- The fundamental demands on audit quality, the level of audit risk given the turmoil in the audit profession, balanced against shareholder views on firm rotation

Non-audit services

The Investec group has adopted a new policy on the engagement of the external auditors to provide non-audit services. This policy, designed to safeguard auditor objectivity and independence, includes guidelines on permitted and non-permitted services and on services requiring specific approval by the DLC Audit Committee. The policy was reviewed and revised during the current year.

Total audit fees paid to all auditors for the year ended 31 March 2020 were £15.4 million (2019: £15.1 million), of which £4.3 million (2019: £4 million) related to the provision of non audit services.

Total non-audit fees for each of the auditing firms were pre-approved by the chair of the DLC Audit Committee prior to every assignment.

Included in non-audit services in the current year are assurance services typically provided by the external auditor in respect of circulars and prospectuses as part of the demerger of the Investec Asset Management business.

Based on the abovementioned policy and reviews, the DLC Audit Committee was satisfied that the level and type of non-audit work undertaken throughout the year did not impair the independence of Ernst & Young LLP (Investec plc) or Ernst & Young Inc. and KPMG Inc. (Investec Limited).

Partner accreditation and audit quality

In terms of the amended JSE Listings Requirements external audit Partner Accreditation, which was previously done by the Independent Regulatory Board for Auditors (IRBA), is now the responsibility of the DLC Audit Committee, together with specific responsibilities around audit quality. In this regard discussions in respect of audit quality continued between the DLC Audit Committee and Ernst & Young LLP (Investec plc), Ernst & Young Inc. and KPMG Inc. (Investec Limited), both from a UK and South African perspective.

The following was covered during these discussions:

- transparency reports and reviews by each of the two firms covering their client base, client acceptance and continuance processes, and the approach to clients, if any, that did not meet the client continuance criteria;
- any reputational, legal or impending legal issues impacting the firm
- the independence processes of the firm, including partner reward and remuneration criteria;
- interrogation of international and local firm audit quality control processes;
- detailed profiles of all partners and managers on the Investec assignment, including their relevant audit experience, were reviewed;
- details in relation to each firm’s respective succession plans in order to provide assurance as to the partner rotation, transition and continuity process;
- the results of the last firm-wide reviews carried out by the regulatory body, IRBA in South Africa; FRC in the UK;
- the results of the last individual partner quality reviews carried out by the regulator and internal firm-wide quality control reviews carried out in respect of each partner; and
- the completion of an audit quality questionnaire by each member of the audit committee and management, the results of which were that a robust audit is in place.

Auditor independence and objectivity

- The DLC Audit Committee considers the independence of the external auditors on an ongoing basis.
- The external auditors are required to rotate the lead audit partner every five years and other key audit partners every five years.
- Partners and senior staff associated with the Investec audit may only be employed by the group after a cooling off period.
- The lead partners commenced their respective five-year rotation periods in 2019 and 2018 (Ernst & Young LLP: 1 April 2019 and Ernst & Young Inc: 31 January 2018)
- Manprit Dosanjh has replaced Andy Bates as the lead Ernst & Young LLP partner for the 2020 audit.
- The external auditors have confirmed their independence and were requested to review and confirm the level of staff transactions with Investec, if any, to ensure that all auditors on the Investec audit meet the independence criteria.
Following due consideration, we continue to believe that the following are adequate safeguards to ensure that the audit process is both objective and effective:

- the extent of audit cross reviews, both between the joint auditors of Investec Limited and the additional reviews by KPMG International
- the additional cross reviews by the DLC auditors across the group supported by partner rotation
- limitations on non-audit services including pre-approval on non-audit work
- the confirmation of the independence of the firms and auditors involved
- formal audit quality process undertaken by the Audit Committee

Mandatory Firm Rotation

Investec plc

The company has complied with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 (the Order), which relates to the frequency and governance of tenders for the appointment of the external auditors. The external auditors of Investec plc are Ernst & Young LLP. Ernst & Young LLP have been Investec plc’s auditors since 2000 and are subject to a mandatory rotation by the end of March 2024 at the latest. A competitive tender process will be conducted in advance of this time.

Investec Limited

In terms of the Banks Act in South Africa, Investec Limited is required to appoint joint auditors.

The rule on MAFR as issued by the Independent Regulatory Board for Auditors (IRBA) requires that an audit firm shall not serve as the appointed auditor of a public interest entity for more than 10 consecutive financial years. Thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years. The requirement is effective for financial years commencing on or after 1 April 2023. If, at the effective date, the entity has appointed joint auditors and both have had audit tenure of 10 years or more, then only one audit firm is required to rotate at the effective date and the remaining audit firm will be granted an additional two years before rotation is required.

The Investec Limited Audit Committee considered the implications of the mandatory audit firm rotation rule as issued by IRBA, the requirements of the South African Companies Act and the state of the audit profession in South Africa including reputational or apparent audit failure perceptions. The views expressed by shareholders have been a key consideration balanced with the implications of having joint auditors and the risks inherent to an audit transition. Based on this assessment, the audit committee deemed it prudent to commence the process by rotating one of the joint auditors effective from the financial year commencing 1 April 2023, with the remaining firm rotating two years thereafter.

A competitive tender process has commenced to appoint the audit firm to be rotated for the financial year commencing 1 April 2023. The conclusion of the tender process will be communicated publicly as soon as it is concluded.

Re-election of auditors

In line with the conditions set out in section 94(8) of the South African Companies Act, and based on its assessment, using the criteria set out by the King IV Code, the JSE, and considering the guidance provided in the FRC guide on Audit Committees, the DLC Audit Committee confirms its satisfaction with the performance and quality of external audit, the external auditors and lead partners.

In making the recommendation for the re-election of Investec Limited’s and IBL’s auditors, the board and the DLC Audit Committee have taken into consideration the South African Companies Act and the South African Prudential Authority requirements with respect to joint auditors and mandatory firm rotation together with the results of the Audit Committees’ extensive, formalised process to satisfy itself as to auditor independence and audit quality.

The board and DLC Audit Committee is recommending the re-election of KPMG Inc. and Ernst & Young as joint auditors of Investec Limited at the annual general meeting in August 2020.

In addition, the board and the DLC Audit Committee is recommending the re-election of Ernst & Young LLP as auditors of Investec plc at its AGM in August 2020.

Zarina Bassa
Chair of the DLC Audit Committee
16 June 2020