Independent auditor's report continued

for the year ended 30 JUNE 2021

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	*R34 million*
How we determined it	*5% of consolidated profit before tax.*
Rationale for the materiality benchmark applied	*We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.* *We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.*

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The consolidated financial statements is a consolidation of forty reporting components operating across South Africa, Namibia, Eswatini, Zimbabwe and Mauritius, comprising the Group's operating businesses and centralised functions. Twelve reporting components were selected for full scope audits based on their financial significance, audit risks and statutory audit requirements. The remaining reporting components were considered to be insignificant components for Group scoping purposes. Analytical review procedures were performed over these insignificant reporting components.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, and component auditors from other PwC network firms or other firms operating under our instruction.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

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for the year ended 30 JUNE 2021

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill The Group's goodwill amounting to R1.407 million as at 30 June 2021 arose from a number of business acquisitions by the Group over the years and represents the excess of the cost of acquisitions over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries. (Refer to note 1(f)(i) Summary of accounting policies, Goodwill), note 2(a) (Critical accounting estimates and assumptions, Impairment of goodwill) and Note 8 (Intangible assets) to the consolidated financial statements) As described in note 8 to the consolidated financial statements, management determined the recoverable amount of cash-generating units ("CGUs") based on value in use. The value in use of the CGUs was calculated by management through discounting their best estimate of future cash flows attributable to the CGUs. The key assumptions and significant judgements used by management in the calculation of the value in use were as follows: » The estimated revenues to be earned from the CGUs; » The discount rate that takes into account the yield on government bonds, Beta, risk adjustment factors and a market risk premium; » Forecast period; and » An average growth rate, based on past performance and management's expectations of future earnings. We considered the goodwill impairment assessment to be a matter of most significance to the current year audit due to the following: » Management's calculation of the value in use of the CGUs involved significant judgments as described above; and » The magnitude of the goodwill balance in relation to consolidated total assets.	Our audit procedures focused on evaluating and challenging the key assumptions used by management in conducting the impairment assessment of goodwill. The procedures performed were as follows: » We assessed the valuation model applied by management to determine the value in use per CGU against the requirements of International Accounting Standard (IAS) 36, Impairment of Assets (IAS 36); » We held discussions with management and obtained an understanding of management's budgeting process, including the process of approval by the directors in determining the future cash flows; » We agreed the inputs used in the projected cash flows, to the latest budgets approved by the directors; » We compared the projected cash flows, including the assumptions relating to revenue growth rates, against historical actual growth rates and actual performance to assess the reasonability of management's budgeting process and projections. We utilised our valuation experts to assess the reasonability of key inputs used by management in the value in use calculations as follows: » For the inputs used in the determination of the discount rates: › we agreed the risk-free rate to the yields on government bonds; and › we compared the market risk premium and beta used by management to those of similar listed entities. Based on the results of our comparison, we accepted the inputs used by management into their determination of the discount rates; » We assessed the appropriateness of the discount rates used by management in the cash flow forecast, by comparing the discount rates against our own internally developed range of acceptable discount rates, which took into account current market conditions. Where management's discount rates fell outside of our independently determined range of rates, we recalculated the value in use of those CGUs using a discount rate that was within our independently determined range of discount rates. We noted that the value in use for each CGU was still higher than the CGUs' respective carrying amounts; » We compared the average growth rate applied in the terminal period to the long term consumer price inflation forecast for South Africa. We did not note any aspect requiring further consideration; » Through discussions with management, we obtained an understanding of how risk adjustment factors are determined and compared these to industry valuation data. We did not note any aspects requiring further consideration; » We assessed the reasonability of the forecast period, taking into account renewable revenue contracts and management's estimation of the timeframe during which newly acquired CGUs will gradually improve cash flow generation. We did not note any aspect requiring further consideration. We compared the projected growth rates to the Group's historic growth rates, based on signed agreements with clients for administration fees, managed healthcare fees, corporate wellness fees and capitation fees, in order to assess the reasonability of the projected growth rates. We noted no aspects requiring further consideration. We calculated a range of value in use for the different CGUs, using an independent range of assumptions arrived at through the procedures performed above, and applied reduced growth rates to the forecasted cash flows. We compared these to the respective CGU's carrying amounts and noted that the value in use for each CGU was higher than the CGU's respective carrying amount.

Independent auditor's report continued

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Key audit matter	How our audit addressed the key audit matter
Capitalisation of development costs relating to internally generated software and impairment assessment of internally generated software The Group's intangible assets balance of R2.782 million as at 30 June 2021 includes current year capitalised internally generated software ("software") amounting to R182 million. (Refer to note 1(f)(iv) Summary of accounting policies, Internally generated computer software development costs), note 2(h) (Critical accounting estimates and assumptions, impairment of internally generated software) and note 8 (Intangible assets) to the consolidated financial statements) During the current year, the Group capitalised development costs of R182 million relating to software, on the basis that management considers these costs to be clearly associated with identifiable products which will be controlled by the Group and have a profitable benefit exceeding the cost beyond one year. In capitalising these development costs, management considered that the criteria in IAS 38, Intangible Assets (IAS 38) is met and development expenditure that does not meet the above criteria are recognised as an expense in consolidated profit or loss as these are incurred. The Group's policy is to perform an annual impairment assessment using a discounted cash flow forecast on all software, regardless of whether an indication of impairment exists. Key assumptions applied by management in the cash flow forecast included the following: » the estimated revenues to be earned from the use of the assets and the period over which those revenues are projected; » the discount rate; and » risk adjustment factors used in deriving an appropriate discount rate applied to future estimated cash flows. We considered the capitalisation of development costs relating to software and the impairment assessment of the software to be a matter of most significance to the current year audit due to the following: » Significant judgment that was applied by management in assessing whether direct development costs such as employee expenses and contractor costs of the system development team met the recognition criteria in IAS 38 for capitalisation as an asset; » Recoverability of these assets is based on forecasting and discounting future cash flows which involves a high degree of judgment to be applied by management; and » The magnitude of capitalised development costs during the current year.	We performed the following audit procedures over the capitalisation of development costs relating to software: » Through discussion with management, we obtained an understanding of the methodology applied by management in the capitalisation of development costs relating to software; » On a sample basis, we assessed the development costs capitalised during the year, as well as the Group's accounting policy for capitalisation of development costs relating to software, against the requirements of IAS 38. We noted no exceptions; » By considering the nature of each activity performed by a software developer against the requirements for recognition as 'development' in terms of IAS 38, we assessed the appropriateness of management's rationale for the activities considered to be 'development'. We did not note any aspect requiring further consideration; » On a sample basis, we performed an independent verification of the professional qualifications of employees whose time had been capitalised during the year as development costs in terms of IAS 38, to assess whether those employees had the appropriate professional skills and competencies to develop software. We did not note any aspect requiring further consideration; » Through enquiry of management, we obtained an understanding of management's governance processes relating to the recording of time-based expenditure for capitalised development costs; » For a sample of employees, we tested the accuracy of the value of employee costs used in the capitalisation rate per hour with reference to their respective signed employment contracts and increase letters. We did not note any aspect requiring further consideration; and » For a sample of employee costs capitalised, we recalculated the costs capitalised to the software by multiplying the capitalisation rate per hour by the time recorded as development hours. For a sample of consultant fees capitalised, we compared the amounts to the relevant invoices. No material differences were noted. We performed the following audit procedures over management's impairment assessment: » We held discussions with management and obtained an understanding of management's budgeting process, including the process of approval by the directors in determining the future cash flows; » We compared the projected cash flows, including the assumptions relating to revenue growth rates, against historical actual growth rates and actual performance, to assess the reasonability of management's budgeting process and projections. We noted no matters requiring further consideration; » We agreed the inputs used in the projected cash flows of revenues to be earned from the use of the software, to the latest budgets approved by the directors; » We assessed the reasonability of the cashflow forecast, taking into account renewable revenue contracts and management's estimation of the timeframe for the renewal of such contracts. We did not note any aspect requiring further consideration; » We utilised our valuation expertise to assess the reasonability of inputs used in the determination of the discount rates as described in the key audit matter above. Based on the assessment performed, we accepted the inputs used by management in determining the discount rates; » We assessed the potential impact of market conditions on the earnings to be derived from the use of the software, by analysing the monthly actual cash flows derived from the use of the software during the current year. Based on our assessment, we accepted management's conclusion that no adjustments to projected cash flows were necessary; and » We calculated a range of value in use for the software determined from the discounted cash flows, using an independent range of assumptions arrived at through the procedures performed above, and applied reduced growth rates to the forecasted cash flows. We compared these to the carrying amount of the software and noted that the value in use was higher than the carrying amount of the software.