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## Report on Review of inflation adjusted interim condensed consolidated financial information

*To the Shareholders of Truworths Limited*

We have reviewed the accompanying inflation adjusted interim condensed consolidated financial information of Truworths Limited and its subsidiaries ("the Group"), which comprise the interim condensed consolidated statement of financial position as at 5 January 2020 and the related interim condensed consolidated statement of profit or loss and other comprehensive income, the interim condensed statement of changes in equity and the interim condensed statement of cash flows for the six-month period then ended and explanatory notes. The Directors are responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the Internal Financial Reporting Standards. Our responsibility is to express a review conclusion on this interim condensed consolidated financial information based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Basis for adverse review conclusion

#### **Non-compliance with International Financial Reporting Standards- International Accounting Standard (IAS) 21: The Effects of Changes in Foreign Exchange Rates, in prior period and inappropriate application of IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.**

As explained in note 3,3 to the inflation adjusted interim condensed consolidated financial information, the Group applied the United States Dollar (US\$) as its functional currency for the period 9 July 2018 to 22 February 2019 and the Real Time Gross Settlement Dollars (RTGSS) and Zimbabwe Dollars (ZWL) for the period 23 February 2019 to 7 July 2019. In order to comply with Statutory Instrument 33 of 2019, issued on 22 February 2019, the Group changed its functional currency with effect from this date. We however believe that the change in currency occurred prior to that date. The inflation adjusted interim condensed consolidated financial information is presented in ZWL.

Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks during this period. Specifically, there was a requirement for banks to separate out local Foreign Currency Accounts (FCAs) (RTGSS) from the FCA Nostro US\$ Accounts effective 1 October 2018. Although the rate was legally pegged at 1:1, multiple pricing practices and other transactions observed and reported publicly indicated exchange rates other than 1:1 between RTGSS and US\$. In February 2019 there was a Monetary Policy statement which introduced RTGSS and the interbank foreign exchange market. Furthermore, Statutory Instrument 142 of 2019 specified that for all domestic transactions, ZWL (which comprises RTGSS, Bond Notes and Bond Coins) was the sole legal tender effective 24 June 2019.

These events triggered the need for the Group to assess whether there was a change in functional currency (from US\$ to ZWL) and whether the 1:1 ZWL: US\$ exchange rate was appropriate.

We believe that events in the market and subsequent promulgation of the ZWL as a formal currency supported a change in functional currency from US\$ to ZWL prior to 22 February 2019 and that transactions in the market indicated a different rate between the two currencies despite the legal 1:1 ZWL: US\$ exchange rate and this occurred effective 1 October 2018.

Accordingly, the consolidated financial statements of the Group as at 7 July 2019 included balances and transactions denominated in US\$ that were not converted to ZWL at a ZWL: US\$ exchange rate that reflects the economic substance of its value as required by IFRS. This includes the period after the date of change in functional currency of 22 February 2019 whereby the Directors used the interbank rate to translate foreign denominated transactions and balances. The rates used did not meet IAS 21 requirements. In addition, the translation of financial statement elements at different exchange rates and resultant exchange difference recorded was not in accordance with IFRS.

As a result of these matters, we issued an adverse opinion on the 7 July 2019 consolidated financial statements.

The above matters which gave rise to the adverse opinion in the prior year have not been corrected as required by IAS 8- *Accounting Policies, Changes In Accounting Estimates and Errors*.

Therefore, management has not restated the opening balances to resolve the matters which resulted in the adverse audit report in the prior period and therefore the matter is continuing.

IAS 29 - Financial Reporting in Hyperinflationary Economies has been applied from 8 July 2019 to 5 December 2020, it is however noted that its application was based on prior and current periods' financial information which was not in compliance with IAS 21 / IAS 8 as described above. Had the correct base numbers and start date been used, most elements of the financial statements would have been materially different.

As a result of these matters:

- All corresponding numbers remain misstated on the Statements of Financial Position, Cash Flows, Profit or Loss and Other Comprehensive Income and Changes in Equity.
- As opening balances enter into the determination of cash flows and performance, our half year conclusion is modified in respect of the impact of this matter on the Statement of Cash Flows, Statement of Profit or Loss and Other Comprehensive Income and Statement of Changes in Equity.

Our half year conclusion on the current period's inflation adjusted interim condensed consolidated financial information is also modified because of the possible effects of the above matter on the comparability of the current period's figures and the corresponding figures.

In addition to the impact on the corresponding numbers, half year performance and cash-flows, the matter continues to impact the balances on the Statement of Financial Position as many of these still comprise of amounts from opening balances. Whilst this matter might not affect all accounts in the statement of financial position, the specific accounts and the portions affected by this matter have not been identified / quantified here. This is due to the second matter requiring modification (which has been discussed below) and which results in virtually all amounts being incorrectly stated.

#### **Exchange rates used in current period**

##### **(Non-compliance with IAS 21: The Effects of Changes in Foreign Exchange Rates)**

As outlined in Note 3,3 to the inflation adjusted interim condensed consolidated financial information, for the six-month interim period ended 5 January 2020, the Group translated foreign denominated transactions and balances using the interbank rate. The interbank rate does not meet the definition of a spot exchange rate as per IAS 21. Had the correct rate been used, a number of significant accounts would have been affected in a material manner.

The effects of the above departures from IFRS are material and pervasive to the inflation adjusted interim condensed consolidated financial information.

We conducted our review in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Scope of review* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our review of the financial statements in Zimbabwe, and we have fulfilled our ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the review evidence we have obtained is sufficient and appropriate to provide a basis for our adverse review conclusion.

#### **Adverse review conclusion**

Our review indicates that, because of the matters described in the basis for adverse review conclusion section above, the inflation adjusted interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Financial Reporting Standards.

The engagement partner on the review audit resulting in this review conclusion report on the inflation adjusted interim condensed consolidated financial information Constance Chakona (PAAB Practicing Certificate Number 0431).



**ERNST & YOUNG**  
**CHARTERED ACCOUNTANTS (ZIMBABWE)**  
**REGISTERED PUBLIC AUDITORS**

Harare

04 May 2020