



# REPORT OF THE AUDIT COMMITTEE

2/20/2017

### Introduction

In accordance with its charter, approved by the Board of Directors on February 27, 2015, the Audit Committee is charged with ensuring that the internal and external audit processes and management, as well as the risk management mechanisms and controls are functioning, ensuring the alignment of financial policies with the strategic guidelines and risk profile of the business, and ensuring the quality and integrity of the Company's financial statements, making recommendations to the Management regarding the approval of financial reports and actions to improve internal controls and reduce risks.

The Audit Committee is formed by four members (three independent members and one external independent member), who are currently in full exercise of their terms of office.

### Activities of the Audit Committee

The Committee held nine (9) ordinary meetings and three (3) extraordinary meetings in 2016 and one (1) ordinary meeting in 2017 to approve the financial statements. In this period, the Audit Committee also periodically conducted private meetings with the chief legal officer, the risk, internal controls and compliance officer and internal audit, as well as meetings with the human resources officer, the independent audit firm and meetings among its members, totaling ten (10) meetings. At each ordinary meeting of the Board of Directors, a report on the Committee's activities in the previous period was presented by the Committee Chairman and discussed with the directors.

### Topics discussed by the Audit Committee

The Audit Committee held meetings with vice presidents and executive officers of the Company, internal auditors, independent auditors and external advisors to understand the processes, internal controls, risks, possible weaknesses and plans for improvement, and submitted its recommendations to the Board of Directors and Management of the Company. A total of eighty-three (83) meetings were conducted to discuss forty-two (42) topics. The main aspects discussed were:

- **Independent Audit**
  - Discussing the plan, scope and main conclusions from the quarterly reviews (ITR) and issuing a report on the financial statements for fiscal year 2016 (DFP 2016);
  - Weaknesses and recommendations for improvements mentioned in the internal controls report and the respective action plans of internal areas to correct or improve the aspects;
  - Monitoring the preliminary and final results for issuing the ISAE 3402/2016 report;
  - Learning about new audit procedures, especially the new audit report format;
  - Annual cycle of appraisal of the performance of independent auditor;
  - Selecting and discussing proposals and making recommendations regarding the hiring of independent auditors for next year.
  
- **Internal Audit**
  - Discussing the risk matrix and approval of internal audit schedule for the 2016 cycle;
  - Monitoring the reports on the work of internal audit issued for own units and franchises, including weaknesses, justifications and correction plans;
  - Monitoring compliance with timetable, scope of hours and result of investigations carried out in special tasks;
  - Monitoring the assessment made by independent advisory on the quality of processes and sufficiency of resources available to internal audit and subsequent monitoring of the implementation of improvement actions recommended;
  - Annual cycle of appraisal of the performance of the head of the internal audit department.

- **Internal controls, corporate risk management, compliance and ombudsman**
  - Monitoring the internal controls plan to map processes, key controls and indicators;
  - Discussing and evaluating the new map of strategic risks of the company, monitoring the mitigation plans together with those responsible for their execution, and the respective description of the risk factors in the Reference Form;
  - Monitoring action plans to improve the information technology general controls (ITGC), access profiles and the segregation of functions;
  - Discussing and monitoring the pilot project to reformulate the company's management system by processes and indicators;
  - Monitoring the implementation of action plans to comply with the integrity program established by the company's management;
  - Monitoring the adoption of compliance policies and practices by managers and employees to ensure compliance with the anticorruption law;
  - Monitoring the results of the assessment made by independent advisory to review the integrity program in the companies acquired and the respective action plan for correcting the processes;
  - Monitoring the results of the Net Promoter Score (NPS) survey and management's initiatives to improve client satisfaction with the services provided by the company.
  
- **Financial management, provisions and indicators**
  - Discussing the model and standardization of the company's budget management;
  - Discussing, streamlining and monitoring the application of the credit analysis policy, collections procedures and estimates of losses on doubtful accounts;
  - Monitoring the financial management model of the software and hardware businesses;
  - Evaluating compliance with CVM Resolution 594 regarding provisions and contingent liabilities and assets;
  - Discussing and monitoring the main lawsuits and the management's judgment on possible outcomes. Monitoring the evolution of the environment of controls in the legal department, mainly related to the management of lawsuits;
  - Discussing and monitoring the procedures adopted to review annual impairment tests;
  - Financial impacts caused by changes in law (*Lei do Bem*);
  - Monitoring the methodology and controls for managing service projects.
  
- **Corporate Governance**
  - Giving opinion for the Board of Directors approval of quarterly and annual financial statements;
  - Evaluating and recommending approval of proposals for dividends and interest on equity;
  - Discussing about improvements to the long-term incentive model for company executives from the perspective of the risks of retention, motivation and alignment with the company's vision and strategy;
  - Discussing the terms used in notices, material fact notices and earnings release to the market;
  - Monitoring and making recommendations to the Board of Directors and the Management on initiatives and operations involving mergers and acquisitions, as well as assessment of operating risks;
  - Discussing and monitoring the process for updating the Reference Form;
  - Discussing the content and making recommendations on the proposed Integrated Report of the company;
  - Monitoring the queries and management's responses to letters from regulatory agencies;
  - Reviewing and making improvements to rules for rolling out the crisis management plan;
  - Reviewing and discussing about a new hierarchy for policies, standards, procedures, governance and powers for approval of rules, as well as reviewing existing policies;
  - Discussing the terms and scope of the policy on transactions with related parties;
  - Monitoring the activities of the Conduct and Ethics Committee, evaluating the complaints received by the channel and the measures adopted by Management.
  - Taking stock of the activities and evaluating the topics discussed in the tax committee.
  - Management and governance aspects of TOTVS franchise network;
  - Annual self-assessment cycle of the audit committee.

### Audit Committee Report

#### 2016 Annual Financial Statements:

The members of the Audit Committee of TOTVS S.A., in the exercise of their legal duties and responsibilities, pursuant to the Charter of the Audit Committee, examined and analyzed the financial statements, accompanied by the independent auditors report and the annual management report for the fiscal year ended December 31, 2016 ("2016 Annual Financial Statements") and, considering the information provided by the Company management and by PwC Auditores Independentes, as well as the proposed allocation of the earnings from fiscal year 2016, unanimously concluded that these adequately reflect, in all material aspects, the equity and financial position of the Company and its subsidiaries, and recommend the Board of Directors of the Company to approve said documents and submit them to the Annual Shareholders Meeting, in accordance with Brazilian Corporation Law.

São Paulo, February 20, 2017

#### **Maria Helena Santana**

Chair of the Audit Committee and member of the Board of Directors

#### **Danilo Silva**

Member of the Audit Committee and the Board of Directors

#### **Gilberto Mifano**

Member of the Audit Committee

#### **Mauro Rodrigues da Cunha**

Member of the Audit Committee and the Board of Directors