



# AUDIT COMMITTEE REPORT

2/5/2018

### Introduction

In accordance with its charter, approved by the Board of Directors on August 29, 2017, the Audit Committee is charged with the processes and management of internal and external audit, the mechanisms and controls related to risk management and the alignment of the financial policies with the strategic guidelines and risk profile of the business, besides ensuring the quality and integrity of the Company's financial statements, and making recommendations to the Management regarding the approval of financial reports and actions to improve internal controls and reduce risks.

On April 28, 2017, the Board of Directors, after electing new directors at the Shareholders Meeting held on April 20, approved changing the membership of the Audit Committee from four members (three independent members and one external independent member) to three members (all independent members), who are currently in the full exercise of their terms of office.

### Activities of the Audit Committee

In 2017 the Committee met ten times and at the meeting held on 31 January, 2018, it discussed and evaluated the financial statements as at December 31, 2017, placing on record the presence of all members in all the meetings held during the period. In this period, the Audit Committee also held reserved meetings periodical with the legal officer, the risk, internal controls and compliance officer and internal audit, as well as other meetings with the human resources officer, independent auditors and meetings among the committee members. 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 Coordinator and discussed with the directors.

### Topics discussed by the Audit Committee

The Audit Committee held meetings with vice presidents, executive officers, internal auditors, independent auditors and external advisors to understand the processes, internal controls, risks, possible weaknesses and any plans for improvement, and to submit its recommendations to the Board of Directors and the Board of Executive Officers. The main aspects discussed were:

- **Independent Auditor**
  - Monitored the process of change of external auditors, from the preparation of invitations to the main audit firms, discussing the scope required and the Committee's recommendation to the Board of Directors for contracting the new independent auditor;
  - Discussed the planning, scope and key findings of the quarterly reviews (ITR) and report on the financial statements for fiscal year 2017 (DFP 2017);
  - Deficiencies and recommendations for improvement mentioned in the internal controls report, as well as the respective action plans of internal areas to make the corrections or improvements;
  - Monitored the preliminary and final results in order to issue the ISAE report 3402/2017;
  - Monitored and made recommendations regarding additional services provided by the current and previous independent audit firms; and
  - Annual performance evaluation cycle of independent auditor.
- **Internal Audit**
  - Held discussions on risk matrix and approval of internal audit schedule for 2017/2018 cycle;
  - Monitored internal audit work reports issued for own units and franchises, including weaknesses, justifications and correction plans;
  - Monitored compliance with the schedule, scope of hours and findings of investigations held in special actions; and
  - Annual performance evaluation cycle of the head of the internal audit department.

- **Internal controls, corporate risk management, compliance and ombudsman**
  - Monitored the plan of internal controls to map processes, key controls and indicators;
  - Discussed and evaluated the description of the risk factors in the Reference Form, considering the previous strategic risks map of the Company;
  - Discussed and assessed the new strategic risks map of the Company, monitored the mitigation plans together with those responsible for its execution, for later description of the risk factors while updating the Reference Form;
  - Monitored action plans to improve the information technology general controls (ITGC), access profiles and segregation of functions;
  - Discussed and monitored the pilot project to reformulate the company's management system by processes and indicators;
  - Monitored the implementation of action plans to comply with the integrity program established by Company Management;
  - Monitored the adoption of compliance policies and practices by management and employees; and
  - Monitored the results of the NPS (Net Promoter Score) survey and management's initiatives to improve customer satisfaction with the services provided by the Company.
- **Financial management, provisions and indicators**
  - Discussed, improved and monitored the application of the credit analysis policy, collections procedures and estimates of losses with doubtful accounts;
  - Monitored the new financial management model for software and hardware businesses;
  - Evaluated compliance with CVM Resolution 594/2009 regarding provisions, as well as contingent liabilities and assets;
  - Discussed and monitored the main legal claims and the management's judgment on outcomes. Monitored the evolution of the controls environment in the legal department, mainly related to the management of lawsuits;
  - Discussed and monitored the procedures adopted for reviewing annual impairment tests and recoverability of deferred tax assets;
  - Discussed and monitored the efforts to adopt the amended international accounting standards (IFRS 15, 9 and 16 pursuant to CPC Technical Pronouncements 47, 48 and 6, respectively);
  - Discussed and monitored the debenture issue, with recommendation of approval by the Board of Directors; and
  - Monitored and made recommendations to the Board of Directors regarding grant of loans to franchisees.
- **Corporate Governance**
  - Submitted opinion for approval by the Board of Directors of quarterly and annual financial statements;
  - Evaluated and recommended the approval of proposals for the declaration and distribution of interest on equity;
  - Held discussions on improving the long-term incentive model for the Company's executives from the perspective of risks of retention, motivation and alignment with the Company's vision and strategy;
  - Discussed the terms used in notices, material fact notices and earnings presentations to the market;
  - Monitored and made recommendations to the Board of Directors and management regarding initiatives and operations involving mergers and acquisitions, as well as the merger of wholly-owned subsidiaries, and assessed the risks in these operations;
  - Discussed and monitored the process of updating of the Reference Form;
  - Discussed the content and made recommendations for the proposed Integrated Report of the company;
  - Followed up on the management's questions and responses regarding official letters from regulatory agencies and self-regulatory authorities;
  - Reviewed and made improvements to rules for executing the crisis management plan;
  - Reviewed and discussed a new hierarchy for policies, standards and procedures, governance and approval authority for standards, reviewed current policies and made recommendations for drafting new policies;
  - Reviewed, discussed and recommended approval by the Board of Directors and the dissemination of the following policies: (a) Preparation and Publication of Standards; (b) Related party transactions; (c) Corporate Information Security; (d) Commercial and Institutional Relations with Public Entities; (e) Management of Risks and Internal Controls; (f) Litigation Management; (g) Corporate Compliance; and (h) Credit and Collections;

- Monitored the activities of the Ethics and Conduct Committee and evaluated the complaints received and the measures taken by Management;
- Monitored the activities and evaluated the topics discussed at the tax committee;
- Management and governance aspects of TOTVS' franchise network;
- Evaluated and monitored the adequacy of transactions with related parties; and
- Annual self-assessment cycle of the Audit Committee.

### Report of the Audit Committee

#### Annual Financial Statements for 2017:

The members of the Audit Committee of TOTVS S.A., in the exercise of their legal responsibilities and powers, pursuant to the Charter of the Audit Committee, examined and analyzed the financial statements, accompanied by the report from the independent auditors and the annual report from Management for the fiscal year ended December 31, 2017 ("Annual Financial Statements for 2017") and, considering the information provided by Management of the Company and by EY Auditores Independentes, as well as the proposed allocation of the earnings from fiscal year 2017, unanimously concluded that these adequately reflect, in all relevant aspects, the equity and financial position of the Company and its subsidiaries, and recommended that the Board of Directors of the Company approve said documents and submit them to the Annual Shareholders Meeting, in accordance with Brazilian Corporation Law.

São Paulo, February 5, 2018

#### **Gilberto Mifano**

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

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

Member of the Audit Committee and the Board of Directors

#### **Henrique Andrade Trinckquel Filho**

Member of the Audit Committee and the Board of Directors