

# Audit Committee Report



02/05/2020

USO RESTRITO



## Introduction

The Audit Committee of TOTVS was established on May 28, 2007, and has since been exercising and improving its functions. On April 5, 2018, the Committee became statutory, pursuant to CVM Instruction 308/99.

As per the current version of its Charter approved by the Board of Directors on March 11, 2019, the Audit Committee is entrusted with ensuring the proper execution and management of internal and external audit, the mechanisms and controls related to risk management and the alignment of financial policies with the strategic guidelines and risk profile of the business, as well as ensuring the quality and integrity of the Company's financial statements, making recommendations to Management regarding the approval of financial reports and actions to improve internal controls and reduce risks.

The Audit Committee has three members (Gilberto Mifano – Coordinator; Mauro Rodrigues da Cunha and Paulo Sergio Caputo), all independent directors, elected on May 4, 2018 by the Board of Directors, with term of office until the first Board of Directors' meeting to be held after the Annual Shareholders Meeting of 2020.

## Activities of the Audit Committee

The Committee met ordinarily ten times and extraordinarily twice during 2019 and, at the meeting held on February 5, 2020, discussed and analyzed the financial statements of December 31, 2019. All the members attended all the meetings.

In this period, the Audit Committee also held reserved meetings periodically with the Risk, Internal Controls and Compliance Department, the Legal Department and with internal audit, as well as other meetings with Human Resources, independent auditors and, in all meetings, among the committee members. To deepen their knowledge of the diverse operating segments of the Company, the Committee members also attended the TOTVS Annual Sales Convention.

At each ordinary meeting of the Board of Directors, the Committee Coordinator submitted a report on the Committee's activities in the previous period, followed by discussions 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 deeply understand and monitor 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

- Renewal of external auditors' service agreement, right from the discussion of the scope required to the Committee's recommendation to the Board of Directors for renewal of said agreement;
- Discussed the planning, scope and key findings of the quarterly reviews (ITR) and report on the financial statements for fiscal year 2019 (DFP 2019);
- Weaknesses, flaws and recommendations for improvement mentioned in the internal controls report, as well as respective action plans of internal areas for corrections or improvements;
- Preliminary and final results for the issue of the ISAE report 3402/2019);



- Appraised and made recommendations to the Board regarding additional services provided by the independent audit firm; and
- Conducted the annual performance appraisal cycle of independent auditors, which, at the start 2019, decided on continuing the services of current auditors.

## • **Internal Auditor**

- Discussed the Company's risk matrix applied to Internal Audit activities and approved the audit schedule for the 2019/2020 cycle;
- Evaluated and discussed the Internal Audit reports prepared for the company's units and franchises, including any deficiencies classified according to degrees of risk (high, medium and low), justifications and corrective actions;
- Monitored the corrective actions taken on audit points identified during Internal Audit;
- Monitored the compliance with the schedule, scope of hours and findings of investigations held in special actions; and
- Conducted the annual evaluation cycle of the area and the performance of the head of Internal Audit, which concluded that improvements were made in the year, besides establishing targets and additional challenges.

## • **Internal controls, corporate risk management, compliance and ombudsman**

- Monitored the plan to map processes, key controls and indicators;
- Evaluated and discussed the priority risks map of the Company, classified according to their impacts and probability of occurrence, accompanied by the risk mitigation plans together with those responsible for their execution, for later description of the risk factors and for 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 customer experience project, with processes and indicators of the customer journey;
- Discussed and monitored the agile methodology at the Company and its implementation in software development areas, besides assessing the risks involved;
- Discussed and monitored the services management project (PSA), including its implementation at franchises;
- 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**

- Held discussions for improving and subsequent monitoring of the application of the credit analysis policy, collections procedures and estimates of losses with doubtful accounts;
- Monitored the financial management of the software business and the sale of hardware operations in Brazil and the international market;
- Evaluated compliance with CVM Resolution 594/2009 regarding provisions, as well as contingent liabilities and assets;
- Discussed and monitored the main lawsuits 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;
- Regularly monitored the activities and evaluated the topics discussed by the Tax Affairs Commission; - 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 and dividends;
- Discussed the terms used in certain 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, including the holding of General Debentureholders Meetings, as well as the merger of wholly-owned subsidiaries, and assessed the risks in these operations; and
- Monitored and made recommendations to the Board of Directors and management about the primary public offering, with restricted efforts, of registered, book-entry common shares with no par value, free and clear of any lien or encumbrance, issued by the Company and the assessment of risks in this operation.

## • Corporate Governance

- Discussed and monitored the process of updating of the Reference Form;
- Followed up on the management's questions and responses to official letters from regulatory agencies and self-regulatory authorities;
- Reviewed and made improvements to rules for executing the crisis management plan;
- Held discussions and made recommendations for approval by the Board of Directors of the revision or amendment of the following policies and their dissemination: (a) Related Party Transactions; (e) Management of Risks and Internal Controls; (c) Preparation and Publication of Standards; (d) Information Security; (e) Treasury Management; (d) Business and Institutional Relations with Public Entities; (g) Trading Policy of Securities; (h) Disclosure; and (i) Credit and Collection Management;
- Monitored the activities of the Ethics and Conduct Committee, evaluated the complaints received by the channel and the measures taken by Management.
- Made amendments, discussed and recommended for approval by the Board of Directors of the Code of Ethics and Conduct and its dissemination;
- Discussed the effects of the General Data Protection Law and monitored the actions and measures taken by the Company;
- Evaluated the governance aspects of the TOTVS franchise network;
- Evaluated and monitored the adequacy of transactions with related parties; and
- Annual self-assessment cycle of the Audit Committee.

## Audit Committee Report

Annual Financial Statements for 2019:

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, as well as the preliminary report from independent auditors and the annual report from Management for the fiscal year ended December 31, 2019 ("Annual Financial Statements for 2019") and, considering the information provided by Management of the Company and by Ernst & Young Auditores Independentes S.S., as well as the proposed allocation of the earnings from fiscal year 2019, 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 the Brazilian Corporations Law.



# AUDIT COMMITTEE REPORT



São Paulo, February 5, 2020

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

Paulo Sergio Caputo  
Member of the Audit Committee and the Board of Directors