

# Audit Committee's Report



February 1st, 2021

USO RESTRITO



## Introduction

TOTVS's Audit Committee was created on May 28, 2007, and since then it has been performing and improving its functions. On April 5, 2018 the Committee became statutory, pursuant to CVM Instruction 308/99.

According to the Internal Regulation in its currently effective version, as approved by the Board of Directors on June 18, 2020, the Audit Committee is responsible for ensuring a suitable operation of the internal and external audit processes and management, mechanisms and controls connected to risk management and the consistency of financial policies with strategic guidelines and the business risk profile. The Audit Committee is also responsible for ensuring the quality, integrity, and compliance of the Company's financial statements, making recommendations to the Management regarding the approval of financial reports and any actions aimed at improving internal controls and reducing risks.

During the 2020 fiscal year, the Audit Committee was composed of three members (Messrs. Gilberto Mifano - Coordinator; Mauro Rodrigues da Cunha and Ricardo Baldin), all of them independent members, and Mr. Ricardo Baldin was the external member of the Audit Committee (as he is not a member of the Board of Directors). The members were elected on April 30, 2020 by the Board of Directors, with a term of office effective until the first meeting of the Board of Directors subsequent to the Company's Annual General Meeting in 2022.

On December 29, 2020 Mr. Ricardo Baldin requested his resignation for personal reasons. On the same date Ms. Lavinia Junqueira joined the Audit Committee as an independent member, whose term of office will remain effective until the Company's Annual General Meeting in 2022, as nominated by the Governance and Nomination Committee and confirmed by the Board of Directors on that same date.

## Activities of the Audit Committee

The Committee met ordinarily eleven times and extraordinarily eight times during the year 2020, with the presence of members in 78.9% of the meetings. At the meeting held on February 1st, 2020 it discussed and reviewed the financial statements of December 31st, 2020.

During such period the Audit Committee also held periodic sessions with the Risk, Internal Controls and Compliance Department, with the Legal Department and with Internal Auditors, in addition to other heads of corporate and business areas, with the purpose of deepening the knowledge of the various areas in which the Company operates. In addition, it held private meetings with the Independent Auditors and, in all meetings, exclusive sessions between the Committee members themselves.

At each ordinary meeting of the Board of Directors, the Committee Coordinator submitted the Committee's recommendations and a report of its activities in the previous period, for knowledge and discussion with the directors.

## Topics discussed by the Audit Committee

The Audit Committee met with: the Company's vice presidents and executive officers; the chief internal auditor; the independent auditors and external advisors to deepen and monitor processes, internal controls, risks, possible deficiencies, and possible improvement plans, as well as to issue their recommendations to the Board of Directors and the Company's Management. The key topics covered were the following:



## • Independent Auditors

- Process for renewing the service agreement for retaining external auditors, covering since the early steps of discussing the required scope, culminating with the Committee's recommendation to the Board of Directors to renew said agreement;
- Discussion of the planning, scope, and main conclusions reached in the quarterly financial statements (ITR), besides an opinion for the issue of the 2020 financial statements (DFS 2020);
- Any weaknesses, deficiencies, and recommendations for improvement pointed out in the Internal Controls Report, as well as the corresponding action plans of the internal areas with topics to be corrected or improved;
- Preview and final results to issue the ISAE 3402/2020 report;
- Review and recommendations to the Board of Directors regarding additional services provided by the independent auditing company; and
- Annual cycle of the independent auditors' performance evaluation, which, at the beginning of 2020, concluded that the current auditors should continue providing services to the Company.

## • Internal Auditors

- Discussion of the Company's risk matrix applied to the Internal Audit activities, and approval of the audit work schedule for the 2020/2021 cycle;
- Review of and discussion on the reports of the Internal Auditors' works issued to the own units and franchises, including any deficiencies rated high, medium, and low as risk, justifications and corrective actions;
- Follow-up of the corrective actions of the audit points identified in the Internal Auditors' work;
- Monitoring of compliance with the schedule, the scope of hours, and results of investigations carried out in special works;
- Monitoring the integration of the Internal Auditors of the acquired company Supplier;
- Review and recommendation of the 2020 Internal Auditors' Activity Report (RAINT), and
- Annual cycle of assessment of the area and the performance of the person in charge of the Internal Auditors department, having reached the conclusion that it had a positive performance in the year, as well as the determination of goals for the year and additional challenges.

## • Internal controls, corporate risk management, compliance, and client/customer ombudsman

- Follow-up of the plan to map processes, key controls, and indicators;
- Assessment and discussion of the Company's priority risk map, rated according to their impacts and chance of occurring, with the corresponding risk mitigation plans by those responsible for their performance, for a subsequent description of risk factors and for updating the Reference Form;
- Setting forth the new risk management monitoring cycle, with the points of contact with the Audit Committee and the Board of Directors;
- Follow-up of action plans to improve IT general controls (ITGC), access profiles, and segregation of functions;
- Discussion of the Internal Controls Report (CCI) of the independent auditors, and monitoring of the corresponding action plans;
- Discussion and follow-up of the customer experience project, with processes and indicators of the customer journey;



- Discussion and follow-up of the agile methodology in the Company and its implementation in the areas of software development, as well as the related risk assessment;
- Follow-up of franchise indicators and results;
- Discussion and follow-up of the service management project (PSA), including its implementation in franchises;
- Monitoring the implementation of action plans to meet the compliance program set forth by the Company's management;
- Monitoring the adoption of compliance policies and practices by administrators and employees;
- Follow-up the results of the NPS (Net Promoter Score) survey and initiatives by the Management to improve client/customer satisfaction with the services provided by the Company;
- Review and recommendation on the conditions of the Liability Insurance for the Management (D&O)
- Follow-up of the progress of the FIDC of the subsidiary Supplier, including with regard to the proper accounting of the transaction.

## • Financial management, provisions and indicators

- Review and opinion for the Board of Directors to approve the quarterly and annual financial statements, including a follow-up of the content of the earnings *releases* ;
- Review and recommendation to approve the proposals for statement and distribution of interest on equity and dividends, as well as stock split;
- Discussion and follow-up of procedures adopted to review the annual impairment tests and recoverability of deferred tax assets;
- Follow-up of the enforcement of the allowance for doubtful accounts policy;
- Discussion about the capitalization of certain investments in research and development;
- Discussion of the terms of certain notices, material facts, and presentation of results to the market;
- Periodic follow-up of activities and review of topics discussed by the Tax Affairs Committee;
- Follow-up and recommendations to the Board of Directors and the Board of Executive Officers on initiatives and transactions involving mergers and acquisitions, as well as the acquisition of wholly-owned subsidiaries, and the review of Due Diligence reports, valuation assumptions, and the risks involved in such transactions; and
- Follow-up of specific actions connected to the Covid-19 pandemic and its effects on the Company's operations and finance.
- Monitoring of provisions for labor and civil contingencies.

## • Corporate Governance

- Discussion and follow-up of the annual process of updating the Reference Form;
- Follow-up of the questions made and answers from the Management for official letters from regulatory bodies and self-regulatory entities;
- Review and improvements in the rules for triggering the crisis management plan;
- Discussion and recommendation regarding the approval by the Board of Directors of the review of or amendment to the following policies and their eventual disclosure: (a) Transactions between Related Parties; (b) Risk Management, Internal Controls, and Compliance; (c) Litigation management; (d) Hiring and Relationship with Independent Auditors; (e) Treasury, Credit and Collection Management; (f) Commercial and Institutional Relationship with Public Entities; (g) Trading of securities issued by the Company; and (h) Charter of the Ethics and Conduct Committee;
- Follow-up of the activities of the Ethics and Conduct Committee, review of the complaints received by such channel and of the investigations carried out, as well as the corresponding measures adopted by the Management;



- Changes, discussion, and recommendation of approval by the Board of Directors and disclosure of the Code of Ethics and Conduct;
- Follow-up and discussion on the effects of the General Data Protection Law and follow-up of the project of compliance with/adherence to the requirements of the Law;
- Review of the governance aspects of the franchise network of TOTVS;
- Review and monitoring of the compliance of transactions with related parties; and
- Audit Committee's annual self-assessment cycle.

## Opinion from the Audit Committee

2020 Annual Financial Statements:

The members of the Audit Committee of TOTVS S.A., in the performance of their legal duties and responsibilities, as provided for in the Audit Committee's Internal Regulation, proceeded to examine and review the financial statements, accompanied by the independent auditors' preliminary opinion and of the Management's annual report for the fiscal year ended December 31, 2020 (hereinafter, the "2020 Annual Financial Statements") and, considering the information provided by the Company's Management and by Ernst & Young Auditores Independentes S.S., as well as the proposal for the allocation of income for the 2020 fiscal year, have unanimously reached the conclusion that such annual financial statements reflect fairly, in all relevant aspects, the equity and financial positions of the Company and its subsidiaries, and recommended that the Company's Board of Directors should approve such documents, which shall be submitted to the Annual Shareholders' Meeting pursuant to the Brazilian Corporations Act.

**São Paulo (SP - Brazil), February 1st, 2021**

Gilberto Mifano  
Audit Committee Coordinator and Member of the Board of Directors

Mauro Rodrigues da Cunha  
Member of the Audit Committee and the Board of Directors