

# AUDIT & RISK COMMITTEE REPORT



## Effective risk management and internal control

**DEIRDRE SOMERS**  
CHAIR OF THE AUDIT & RISK COMMITTEE

### PRINCIPAL RESPONSIBILITIES OF THE COMMITTEE:

- Monitoring the integrity of the Group's financial statements and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained in them;
- Assessing whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy;
- Monitoring the external auditor's independence and objectivity and, in particular, the appropriateness of the provision of non-audit services;
- Monitoring the effectiveness of the Group's internal control and risk management systems;
- Considering the appropriate risk appetite for the Group and overseeing the current and prospective risks faced by the Group and its strategy in relation to future risks;
- Ensuring the risk management function is properly resourced, with adequate information rights and sufficient independence such that it is free from management interference;
- Making recommendations for the Board to put to shareholders for their approval in General Meetings regarding the appointment, remuneration and terms of engagement of the external auditor;
- Monitoring the effectiveness of the internal audit function; and
- Reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken.

The Chair of the Audit & Risk Committee attends the Annual General Meeting to answer questions on the report on the Committee's activities and matters within the scope of the Committee's responsibilities.

See the Committee's terms of reference at <https://www.kenmareresources.com/en/about-us/corporate-governance/audit-risk-committee>.

I am pleased to present the report of the Audit & Risk Committee for 2021. During the year, the Committee met six times and the main areas of focus were as set out on page 101. This report describes how the Committee has fulfilled its responsibilities during the year under its terms of reference and under the relevant requirements of the UK Corporate Governance Code 2018.

### MEMBERSHIP AND MEETINGS

In May 2021, Gabriel Smith retired from the Board and, in December 2021, Peter Bacchus resigned as a Director. The Audit & Risk Committee now consists of myself, as Chair, Clever Fonseca and Elaine Dorward-King, all of whom are Independent Non-Executive Directors. As outlined in the Directors' biographical details, members bring considerable accounting, corporate financial and mining industry experience to the work of the Committee. I am a Chartered Accountant and have been designated by the Board as the Committee's financial expert. Details of the skills and experience of the Committee members are set out on pages 76 and 77.

Both Gabriel Smith and Peter Bacchus attended all Committee meetings held prior to their respective departures from the Company.

### Committee membership

Name	Role	Independent	Date of Appointment to Committee	Meetings Attended
Deirdre Somers	Chair	Yes	19/08/2020	6
Clever Fonseca	Member	Yes	13/05/2020	6
Elaine Dorward-King	Member	Yes	31/12/2021	N/A

## External audit Independence and non-audit services

The Committee is responsible for ensuring that the external auditor is independent and for implementing appropriate safeguards where the external auditor also provides non-audit services to the Group. The Committee closely monitors the level of audit and non-audit services that audit firms provide to the Group. The Committee has adopted a policy on the provision of non-audit services by the external auditor on the basis that they may provide such services only where the engagement will not compromise their audit objectivity and independence, they have the understanding of the Group necessary to provide the service and they are considered to be the most appropriate to carry out the work. All non-audit services provided by audit firms must be approved by the Committee.

KPMG is the Group's external auditor and has confirmed to the Committee that it is independent from the Group under the requirements of the Irish Auditing and Accounting Supervisory Authority's (IAASA) Ethical Standards for Auditors. The Committee reviews and approves any appointment of an individual, within three years of having previously been employed by the current external auditor, to a senior managerial position in the Group.

The Company Secretary, the external audit lead partner and, from time to time, the Financial Director attend meetings at the invitation of the Committee. Twice each year, the Committee and the external auditor discuss, without management present, matters relating to its remit and any issues.

KPMG was approved as auditor by the Company at the AGM in May 2019 and began its engagement in July 2019. From the commencement of KPMG's engagement, the lead audit partner was David Meagher and audit partner was Keith Watt. Following David's retirement in 2021, Keith assumed the role of lead audit partner.

In 2021, KPMG provided a number of audit services and non-audit services. The non-audit services consisted mainly of audit-related assurance concerning the review of the half-yearly financial statements and Mozambican tax compliance services and other related matters. The Committee is satisfied that the external auditor's knowledge of the Group was an important factor in choosing it to provide these services. The fee paid to KPMG in 2021 in respect of audit services and non-audit services was \$166,000 and \$92,000 respectively, a ratio of 1.8:1. KPMG has stated that it does not consider that these fees create a self-interest threat since the level of fees is not significant to the firm as a whole. The Committee is therefore satisfied that the non-audit work did not compromise KPMG's independence or objectivity and that it was in the interests of the Group to retain KPMG for those services. Details of the amounts paid to KPMG during the year for audit and other services are set out in Note 7 to the consolidated financial statements on page 150.

## Effectiveness

The Committee, on behalf of the Board, is responsible for the relationship with the external auditor and for monitoring the effectiveness and quality of the external audit process. The Committee's primary means of assessing the effectiveness of the external audit process is by monitoring performance against the agreed audit plan. In addition, we consider the following:

- The experience and knowledge of the external audit team;
- The quality of presentations to the Board and Committee;
- The technical insights provided relevant to the Group;
- Demonstration of a clear understanding of the Group's business and key risks; and
- The results of post-audit interviews with management and the Audit & Risk Committee Chair.

Based on the above, the Committee is satisfied with the effectiveness of the external auditor for 2021.



Read more about [our financial performance](#) on page 44 to 48



Read more about [our principal risks](#) on page 64 to 71



# AUDIT & RISK COMMITTEE REPORT CONTINUED

## Financial reporting and significant financial judgements

A key responsibility of the Committee is to consider the significant areas of complexity, management judgement and estimation that have been applied in the preparation of the financial statements. The Committee has reviewed the suitability of the accounting policies which have been adopted and whether management have made appropriate judgements and disclosures. The table on page 102 sets out the significant matters considered by the Committee in relation to the financial statements for the year ended 31 December 2021.

Under Provision 25 of the 2018 UK Corporate Governance Code, the Committee, upon request from its Board, should, *“provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s position and performance, business model and strategy”*. The Board has tasked the Committee with this role, which is incorporated into the Committee’s terms of reference. In line with the above, the Committee has undertaken a review of the 2021 Annual Report and Accounts and confirmed to the Board that it was the opinion of the Committee that, taken as a whole, the 2021 Annual Report and Accounts are fair, balanced and understandable and provided the information necessary for shareholders to assess the Group’s position and performance, business model and strategy. In advance of providing such a confirmation to the Board, the Committee considered the adequacy of the systems and internal controls, the consistency of the various elements of the 2021 Annual Report and Accounts (taking into account reports received by the Board during the year), the level of information provided, the narrative reporting and the language used.

## Risk management

The Group has identified and documented critical risks to the business, including key operational risks and related controls in its risk register. The Mine’s operational risks to the business are reviewed quarterly and updated. The Group’s operational risks are reviewed annually and the corporate and business risks on the Group’s risk register are updated.

Following a review of the Group risk register by senior management, the principal risks identified for the Group and their mitigations are submitted to the Audit & Risk Committee and Board for review and approval. These risks are included in the principal risks and uncertainties facing the Group as set out on pages 64 to 71. As part of the internal audit function, controls identified in the risk register are tested to ensure they are operating effectively.

The Committee assessed the Group’s risk management and internal control framework in line with the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and reviewed the audit and review summary reports from the external auditor. The Committee, having assessed the above information, is satisfied that the internal control and risk management framework is operating effectively and has reported this opinion to the Board.

## Internal audit

The Internal Auditor prepares an Internal Audit plan for each financial year proposing the audit areas to be covered and the timeframe for each. This is presented to the Committee for approval. The Internal Auditor updates the Committee on progress at regular intervals and prepares reports for each Committee meeting which he presents at the meetings. The Committee can question the Internal Auditor on the contents of the reports and the processes employed by him in investigations. These reports are considered by the Committee and material matters and recommendations are then reported to the Board.

The Committee is responsible for monitoring and reviewing the operation and effectiveness of the Internal Audit function including its focus, plans, activities and resources. To fulfil its duties during 2021, the Committee:

- Reviewed and approved the Internal Audit annual plan to ensure alignment with the Group’s principal risks;
- Considered and was satisfied that the competencies, experience of and level of resources available to the Internal Auditor were adequate to achieve the proposed plan;
- Considered the role and effectiveness of internal audit in the overall context of the Group’s risk management framework and was satisfied that the function has appropriate standing within the Group;
- Ensured that the Internal Auditor had access to the Chair of the Board if required; and
- Ensured co-ordination between Internal Audit and the external auditor to maximise the benefits from clear communication and co-ordinated activities.

On the basis of the above the Committee concluded that, for 2021, the Internal Audit function was performing well and is satisfied that the quality, experience and expertise of the function is appropriate for the Group.

## Whistleblowing

The Company has a Whistleblowing Policy in place and a third-party service provider is engaged to provide a confidential 24/7 whistleblowing service available to all employees to report any wrongdoing in the workplace. The service does not replace the internal processes within the organisation, but seeks to provide an alternative for those employees who, for any reason, do not wish to use the internal processes. The Audit & Risk Committee Chair is also positioned to receive written complaints in confidence on accounting, risk issues, internal controls, auditing issues and related matters for reporting to the Audit & Risk Committee.

Three reports were received in 2021. Two are still under investigation as progress has been delayed for reasons outside Kenmare’s control. A third report was dealt with satisfactorily by our finance team.

## Areas of focus in 2021

AREA OF FOCUS	AUDIT & RISK COMMITTEE ACTION
<b>Financial Reporting</b>	<ul style="list-style-type: none"> <li>The Committee reviewed the 2020 Annual Report and Accounts in March 2021, the 2021 Half Yearly Financial Report issued in August 2021 and all formal announcements relating to these statements before submitting them to the Board of Directors with a recommendation to approve.</li> <li>The Committee undertook a review of the 2020 Annual Report and Accounts and confirmed to the Board that it was the opinion of the Committee that, taken as a whole, the 2020 Annual Report and Accounts are fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy.</li> <li>The Committee reviewed management's impairment assessment together with the viability and going concern statements in the 2020 Annual Report and Accounts and 2021 Half Yearly Financial Report.</li> </ul>
<b>Distributable Reserves</b>	<ul style="list-style-type: none"> <li>The Committee reviewed the Company's distributable reserves to ensure these were sufficient to pay the 2020 final dividend, the 2021 interim dividend and to buy back shares pursuant to the Tender Offer.</li> </ul>
<b>Risk Management and Internal Control</b>	<ul style="list-style-type: none"> <li>The Committee reviewed the Group's risk management and internal control framework established for identifying, evaluating and managing key risks.</li> <li>The principal risks facing the Group were reviewed and considered.</li> <li>The Committee received updates on insurance renewals.</li> <li>The Committee reviewed the Anti-Bribery and Whistleblower policies to ensure they remained appropriate for the Group's business.</li> <li>The Group reviewed the Treasury Management Policy and recommended it for approval by the Board.</li> </ul>
<b>Internal Audit</b>	<ul style="list-style-type: none"> <li>The Committee reviewed the internal audit charter and was satisfied that it remained appropriate for the Group.</li> <li>The Committee approved the internal audit plan for 2021 and received quarterly updates on progress in this regard as well as in relation to ad hoc work undertaken during the year.</li> <li>The Committee received quarterly reports from the internal auditor on Safecall (anonymous whistleblower line) reports received and resulting investigations.</li> <li>The Committee reviewed internal audit reports during the year covering a review of the plant spares and consumables warehouse relocation plan, the mine's plant maintenance process and foreign currency payments process. The Committee also received reports on the investigations into the Safecall reports noted above, a report investigating impersonation of Kenmare as part of an alleged "scam" and a report on a procurement process-related issue.</li> <li>The Committee reviewed the effectiveness of the internal audit function.</li> </ul>
<b>External Audit</b>	<ul style="list-style-type: none"> <li>The Committee agreed the audit plan of the external auditor, KPMG, for their audit of the 2021 Annual Report and Accounts and their review of the 2021 Half Yearly Financial Report.</li> <li>The Committee reviewed the independence and effectiveness of the external audit process including the safeguards designed to avoid the possibility that the auditor's objectivity and independence could be compromised. The Committee is satisfied that the appropriate policy is in place in respect of services provided by external auditors.</li> <li>The Committee approved the non-audit services provided by KPMG to the Group in 2021.</li> <li>Post completion of the 2020 audit and 2021 half year review, in conjunction with KPMG, review meetings were held with senior finance management and it was confirmed by both parties that no issues had arisen during the audit or review process.</li> <li>The Committee received a presentation from KPMG on proposed UK audit reforms.</li> </ul>
<b>Mozambique Tax Authority Audit</b>	<ul style="list-style-type: none"> <li>The Committee received regular updates on the Mozambican tax authority's audit of the tax obligations of KMML Mozambique Branch.</li> <li>The Committee received input into the audit from local counsel in Mozambique.</li> <li>The Committee reviewed financial reporting disclosures in relation to the audit.</li> </ul>
<b>Terms of Reference</b>	<ul style="list-style-type: none"> <li>The Committee considered its terms of reference to ensure they remain appropriate for the Group's needs. The terms of reference are available on the Kenmare website at <a href="https://www.kenmareresources.com/en/about-us/corporate-governance/audit-risk-committee">https://www.kenmareresources.com/en/about-us/corporate-governance/audit-risk-committee</a>.</li> </ul>

# AUDIT & RISK COMMITTEE REPORT CONTINUED

## Estimates and judgements

The Committee reviewed in detail the following areas of significant judgement, complexity and estimation in connection with the 2021 financial statements. The Committee considered the report from the external auditor on the audit work undertaken and conclusions reached as set out in its audit report on pages 130 to 133.

AREAS OF JUDGEMENT	AUDIT & RISK COMMITTEE CONSIDERATIONS
<b>Property, plant and equipment</b>	The recovery of property, plant and equipment is dependent upon the successful operation of the Mine. The realisation of cash flow forecast assumptions would result in the recovery of such amounts. During the financial year the Group carried out an impairment review of property, plant and equipment. As a result of the review no impairment provision is required in the financial year 2021. Details of the impairment review, assumptions and judgements are included in Note 13 to the consolidated financial statements.
<b>Revenue recognition</b>	The Group sells its mineral products on the international commercial terms (Incoterms) FOB, CFR and CIF and has identified the performance criteria and recognition of revenue in relation to products, freight and insurance. Following discussions with management, the Audit & Risk Committee was satisfied that the revenue recognition methodology used by management is appropriate.
<b>Other matters</b>	The Committee considered and is satisfied with a number of other judgements and estimates which have been made by management including provisioning for tax matters, the mine closure and mine rehabilitation provision, units of production depreciation, considerations of the impact of climate change on amounts reported in the financial statements and the carrying amounts of the Parent Company's investments in subsidiary undertakings.

## Audit & Risk Committee effectiveness and priorities for 2022

As outlined in the Corporate Governance Report, during 2021 there was an external evaluation by Board Excellence of the Board and its Committees' performance and effectiveness. I am pleased to confirm that the evaluator found that the Committee is working well, is highly effective, is well-led, and well supported by the Financial Director, Company Secretary and financial Team. The Committee will continue to focus on internal control, external audit planning and risk management during 2022.

The Committee would like to thank KPMG for their work on the 2021 financial statements. I would also like to thank my fellow Committee members for their commitment and input to the work of the Committee during 2021 and the financial team for their assistance, guidance and support. Lastly, I would like to thank both Gabriel Smith and Peter Bacchus for their contribution to the Committee and to wish them well in their future endeavours.

## DEIRDRE SOMERS

CHAIR OF THE AUDIT & RISK COMMITTEE

4 April 2022