

# Audit & Risk Committee report



**GABRIEL SMITH**

Chairman of the Audit & Risk Committee

## Mitigating risk and ensuring fair and balanced reporting

### 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 auditors' 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 auditors;
- 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 Chairman 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 on:

[www.kenmareresources.com/about-us/corporate-governance](http://www.kenmareresources.com/about-us/corporate-governance)

### Chairman's overview

I am pleased to present the report of the Audit & Risk Committee for 2019. During the year, the Committee, renamed the Audit & Risk Committee to better reflect its role and oversight in risk management, took an active role in assessing risks associated with the business including milestone events such as the commencement of dividend payments and the refinancing of the Group's debt facilities. 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 Code.

### 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 auditors 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

### Membership and meetings

The Audit & Risk Committee consists of the Non-Executive Chairman, Mr. G. Smith, and Non-Executive Directors Mr. P. Bacchus and Ms. E. Headon. Mr. G. Smith is the Committee's financial expert. As outlined in the Directors' biographical details, set out on pages 72 and 73, members bring considerable financial, accounting and mining industry experience to the work of the Committee, with Mr. P. Bacchus being a Chartered Accountant.

		Independent	Date of appointment to Committee	Meetings attended
Mr. G. Smith	Chairman	Yes	12/03/2013	●●●●●●●●
Mr. P. Bacchus	Member	Yes	25/05/2017	●●●●●●●●
Ms. E. Headon	Member	Yes	21/04/2011	●●●●●●●●

to carry out the work. All non-audit services provided by audit firms must be approved by the Committee.

In 2019, following the completion of a competitive audit tender process, KPMG were appointed as the Company's external auditor. KPMG confirmed to the Committee that they are 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 Finance Director attend meetings at the invitation of the Committee. At least once each year, the Committee and the external auditors discuss, without management present, matters relating to its remit and any issues.

KPMG were approved as auditor by the Company at the AGM in May 2019 and began their engagement in July 2019. Since the commencement of KPMG's engagement, the lead audit partner has been David Meagher. In 2019, KPMG provided a number of audit services and non-audit services. The non-audit services consisted mainly of audit-related assurance being 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 them to provide these services. The fees paid to KPMG for non-audit work in 2019 amounted to US\$ 81,000 and represented 34% of the total KPMG fees for the year. Of this amount, US\$20,000, representing 8% of the total KPMG fees for the year, relate to Mozambican tax compliance services and other non-audit services. 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 the external auditor during the year for audit and other services are set out in Note 7 to the consolidated financial statements on page 136.

### Effectiveness

In assessing the effectiveness of the external auditor, the Committee considers the following:

- The quality of presentations to the Board and Committee;
- The technical insights provided relevant to the Group; and
- Demonstration of a clear understanding of the Group's business and key risks.

On the basis of the above, the Committee is satisfied with the effectiveness of the external auditors.

### 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, with the support of KPMG as external auditor, reviewed the suitability of the accounting policies which have been adopted and whether management have made appropriate judgements and disclosures. The table on page 87 sets out the significant matters considered by the Committee in relation to the financial statements for the year ended 31 December 2019.

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 2019 Annual Report and Accounts and confirmed to the Board that it was the opinion of the Committee that, taken as a whole, the 2019 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 2019 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 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 46 to 51. 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 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 these duties the Committee:

- Reviewed and approved the Internal Audit annual plan to ensure alignment with the Group's principal risks;
- Considered and were satisfied that the competencies, experience and level of resources within the internal audit team 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 Chairman 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 2019 the Internal Audit function was performing well and is satisfied that the quality, experience and expertise of the function is appropriate for the Group.

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 a final report on his findings which he presents at a meeting with the Committee for discussion. The Committee can question the Internal Auditor on the contents of the report and the processes employed by

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them in investigations. This report is considered by the Committee and material matters and recommendations are then reported to the Board.

In 2019 a vacancy arose in the Internal Audit department as a result of redeployment of the incumbent to a new role within the Company. A search process was undertaken and a new Internal Auditor was employed in January 2020.

## 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. No reports were received in 2019. 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 Chairman 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.

## Areas of focus in 2019 and to date in 2020

Area of focus	Audit & Risk Committee action
<b>Financial reporting</b>	<p>The Committee reviewed the 2019 Half Yearly Financial Report issued in August 2019, the 2019 Annual Report and Accounts in March 2020 and all formal announcements relating to these statements before submitting them to the Board of Directors with a recommendation to approve.</p> <p>The Committee undertook a review of the 2019 Annual Report and Accounts and confirmed to the Board that it was the opinion of the Committee that, taken as a whole, the 2019 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.</p>
<b>Risk management and internal control</b>	<p>The Committee reviewed the Group's risk management and internal control framework established for identifying, evaluating and managing key risks. The principal risks facing the Group were reviewed and considered.</p>
<b>Internal audit</b>	<p>The Committee approved the internal audit plan for 2019.</p> <p>The Committee reviewed two internal audit reports during the year covering:</p> <ul style="list-style-type: none"><li>• foreign currency risk management;</li><li>• controls audit on procurement;</li><li>• licensing;</li><li>• community safety awareness programmes; and</li><li>• power supply.</li></ul> <p>The Committee instigated a recruitment search for a new Internal Auditor and approved the appointment of a candidate who commenced employment in January 2020.</p>
<b>External audit</b>	<p>In 2019 the Committee concluded a competitive audit tender process which began in 2018. Following a detailed evaluation process involving presentation to the Committee by shortlisted firms, the Committee recommended to the Board that KPMG be appointed to succeed Deloitte as Kenmare's external auditor.</p> <p>The Committee agreed the fees and audit plan of the external auditor, KPMG, for their audit of the 2019 Annual Report and Accounts and their review of the 2019 Half Yearly Financial Report.</p> <p>The Committee reviewed 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.</p> <p>At the December 2019 Committee meeting, KPMG outlined to the Committee in detail the external audit plan.</p> <p>Post completion of the 2019 audit and 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.</p>

## Areas of focus in 2019 and to date in 2020

Area of focus	Audit & Risk Committee action
<b>Irish Auditing and Accounting Supervisory Authority Review</b>	IAASA wrote to Kenmare in May 2019 requesting further information on a number of matters following their review of the 2018 Annual Report. Responses were provided by Kenmare. Following the provision of that information all items save for one were addressed to IAASA's satisfaction. The remaining item related to the impairment review undertaken and in particular the appropriate country risk rate to use in the calculation of the discount rate. IAASA requested further explanation on the approach taken and this was provided by Kenmare in a detailed letter. IAASA has written to the Company advising that the Company's position is noted and that they have no further queries.
<b>Terms of reference</b>	The Committee reviewed its terms of reference and expanded its risk management remit. The new terms of reference are available on the Kenmare website at <a href="http://www.kenmareresources.com/about-us/corporate-governance/audit-committee">www.kenmareresources.com/about-us/corporate-governance/audit-committee</a>

### Estimates and judgements

The Committee reviewed in detail the following areas of significant judgement, complexity and estimation in connection with the 2019 financial statements. The Committee considered a report from the external auditors on the audit work undertaken and conclusions reached as set out in their audit report on pages 118 to 121.

## Financial Statements 2019

Area 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.
<b>Revenue recognition</b>	The Group sells its mineral products on the Incoterms FOB, CFR and CIF and has identified the performance criteria and recognition of revenue in to relation products, freight and insurance. Following discussions with management, the Audit Committee was satisfied that the revenue recognition methodology used by management is appropriate.

### Audit & Risk Committee effectiveness and priorities for 2020

As outlined in the Corporate Governance report, during 2019 there was an internal evaluation of the Committee's performance and effectiveness. I am pleased to confirm that the Committee continues to operate effectively.

I would like to thank my fellow Committee members for their commitment and input to the work of the Committee during 2019. We would also like to thank KPMG for their work on the 2019 financial statements.

The Committee will continue to focus on internal control, external audit planning and risk management.

**GABRIEL SMITH**

**Chairman of the Audit & Risk Committee**

27 March 2020