



Merafe Resources Limited

Terms of Reference of the Audit and Risk Committee

NOTE: THESE TERMS OF REFERENCE HAVE NOT YET BEEN UPDATED TO THE KING IV RECOMMENDATIONS. THE DOCUMENT WILL BE AMENDED AS REQUIRED TO ALIGN TO KING IV DURING 2018.



1. INTRODUCTION

The Audit and Risk Committee (“the Committee”) is constituted as a statutory committee of Merafe Resources Limited (“the Company”) in respect of its statutory duties in terms of section 94 (7) of the Companies Act, 2008 and a committee of the Board in respect of all other duties assigned to it by the Board.

The duties and responsibilities of the members of the Committee as set out in this document are in addition to their duties and responsibilities as members of the Board. The deliberations of the Committee do not reduce the individual and collective responsibilities of Board members in regard to their fiduciary duties and responsibilities, and they must continue to exercise due care and judgment in accordance with their legal obligations.

These terms of reference are subject to the provisions of the Companies Act of 2008, King III, the Company’s memorandum of incorporation and any other applicable law or regulatory provision.

2. PURPOSE

The purpose of these terms of reference is to set out the Committee’s role and responsibilities as well as the requirements for its composition and meeting procedures.

3. COMPOSITION

The Committee comprises at least three members- to be approved by the shareholders on recommendation by the Board.



All members of the Committee must be suitably skilled and experienced independent non-executive directors in terms of the definition set out in the Companies Act as amended and other regulatory requirements.

The members of the Committee must collectively have sufficient qualifications and experience to fulfil their duties, including an understanding of the following: financial and sustainability reporting; internal financial controls; external audit process; internal audit process; corporate law; risk management; sustainability issues; information technology governance as it relates to integrated reporting; and governance processes within the Company.

The Chairperson of the Board is not eligible to be the chairperson or a member of the Committee but may attend meetings by invitation.

The Committee must be chaired by an independent non-executive director.

The Board shall appoint the Chairperson from the members of the Committee who shall hold office for one year or until the next annual general meeting and who may offer himself/herself for re-election each year unless otherwise determined by the Board.

The Committee members must keep themselves informed on developments affecting the required skill-set.

4. SECRETARY

The Company Secretary or his/her nominee shall be the secretary of the committee and he/she shall agree with the Chairperson of the committee on the contents of the agenda for each meeting. The committee secretary shall attend and record fully the procedures and decisions taken but may be excluded by the Chairperson from any item on the agenda should any conflict of interest become evident. The minutes of such meetings shall be reviewed and approved by the members of the committee at the next meeting.



5. ROLE

The Committee has an independent role with accountability to both the Board and shareholders and does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

The role of the Committee is to oversee that the Company complies with responsibilities relating to integrated reporting, combined assurance, internal controls (including accounting systems and information technology and accounting policy), internal audit, risk management, external audit. The Committee will also monitor compliance with laws, rules, codes of conduct and standards, whilst also making recommendations to the Board on these matters.

6. RESPONSIBILITIES

The Committee has the following specific responsibilities:

6.1 **Integrated Reporting / Finance matters**

The Committee oversees integrated reporting, and must, in particular:

- i. Have regard to all factors and risks that may impact on the integrity of the integrated report, including factors that may predispose management to present a misleading picture, significant judgements and reporting decisions made, monitoring or enforcement actions by a regulatory body, any evidence that brings into question previously published information, forward-looking statements or information;
- ii. Review the annual financial statements, interim reports, preliminary or provisional result announcements, summarised integrated information, any



other intended release of price-sensitive information and prospectuses, trading statements and similar documents;

- iii. Comment on the financial statements, the accounting practices and the effectiveness of the internal financial controls;
- iv. Review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information;
- v. Recommend to the Board whether or not to engage an external assurance provider on material sustainability issues;
- vi. Recommend the integrated report for approval by the Board;
- vii. Consider the frequency for issuing interim results;
- viii. Consider whether the external auditor should perform assurance procedures on the interim results;
- ix. Review the content of the summarised information to determine whether it provides a balanced view;
- x. Engage the external auditors to provide assurance on the summarised financial information.
- xi. Approve the Taxation Policy, Strategy and Framework.
- xii. Consider on an annual basis, and satisfy itself of the appropriateness of the expertise and experience of the Group Financial Director and report thereon in the annual report. (JSE LR 3.84h)
- xiii. To prepare a report, to be included in the annual financial statements and financial year –



- (a) describing how the committee carried out its functions;
 - (b) stating whether the audit committee is satisfied that the auditor was independent of the Company; and
 - (c) commenting in any way the committee considers appropriate on the annual financial statements, the accounting practices and the internal financial control of the Company.
- (Companies Act – S94(7)(f))

6.2 **Combined Assurance**

The Committee will ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities, and should, in particular:

- i. Ensure that the combined assurance received is appropriate to address all the significant risks facing the Company; and
- ii. Monitor the relationship between the external assurance providers and the Company.

The Committee reviews the expertise, resources and experience of the Company's finance function, and discloses the results of the review in the integrated report.

6.3 **Internal Controls / Audit**

The Committee is responsible for overseeing internal controls / audit, and must in particular conclude and report yearly to the stakeholders and the board on the effectiveness of the Company's internal financial controls. Before the Committee concludes and reports to the Board on the effectiveness of internal financial controls, it should holistically consider all information brought to its attention from all sources, including communications with, and reports from, other assurance providers and the management, as well as the external auditors.



The Board on the recommendation of the Committee should consider whether it is appropriate for the Company to have an Internal Audit function.

Should the Board decide that the Company should have an Internal Audit function, then the Committee's role in relation to Internal Audit includes:

- i. evaluate the performance of Internal Audit, its effectiveness and independence;
- ii. consider whether the mandate, organisation, resourcing and standing of the Internal Audit function are appropriate to the needs of the Company and enable the Committee to meet its objectives;
- iii. review the compliance of internal auditors with its mandate in terms of the Internal Audit Charter;
- iv. approve the Internal Audit plans and budget
- v. satisfy itself that the Internal Audit plan makes provision for effectively addressing the critical risk areas of the business.
- vi. satisfy itself regarding Internal Audit's review of the effectiveness of the Group's systems of internal control, including:
 - a. internal financial control and business risk management and the maintenance of effective internal control systems;
 - b. the maintenance of proper accounting records;
 - c. controls over the financial reporting environment;



-
- d. the safeguarding of the Company's assets against unauthorised use or disposal;
 - vii. review Internal Audit's written assessment of the effectiveness of the process for identifying, assessing and reporting all significant business risks and the management and mitigation of those risks by the Company and making appropriate recommendations to the Board;
 - viii. review significant matters reported by the Internal Audit function in relation to financial reporting, corporate governance, internal control and any significant investigations;
 - ix. review the adequacy of corrective action taken in response to significant Internal Audit findings;
 - x. review the co-operation and co-ordination between the Internal and External Audit functions and co-ordinating the formal Internal Audit work plan with External Auditors and other assurance providers to ensure that an appropriate Combined Assurance Model is applied by the group;
 - xi. review significant differences of opinion between management and the Internal Audit function;
 - xii. consider and review any difficulties encountered in the course of internal audits including any restrictions in scope;
 - xiii. direct and supervise investigations by Internal Audit into matters within its scope, for example breakdowns in internal control, cases of employee fraud, misconduct or conflicts of interest.



6.4 Risk Management

The Committee is an integral component of the risk management process and must specifically:

- i. Oversee financial reporting risks;
- ii. Oversee internal financial controls;
- iii. Oversee fraud risks as they relate to financial reporting;
- iv. Oversee IT risks as they relate to financial reporting;
- v. Oversee the development and annual review of a policy and plan for risk management to recommend for approval to the Board;
- vi. Monitor implementation of the policy and plan for risk management taking place by means of risk management systems and processes;
- vii. Make recommendations to the Board concerning the levels of tolerance and appetite and monitor that risks are managed within the levels of tolerance and appetite as approved by the Board;
- viii. Ensure that the risk management plan is widely disseminated throughout the Company and integrated in the day-to-day activities of the Company;
- ix. Ensure that risk management assessments are performed on a continuous basis;
- x. Ensure that frameworks and methodologies are implemented to increase the possibility of anticipating unpredictable risks;



-
- xii. Ensure that management considers and implements appropriate risk responses;
 - xiii. Ensure that continuous risk monitoring by management takes place;
 - xiv. Express the Committee's formal opinion to the Board on the effectiveness of the system and process of risk management; and
 - xv. Review the risk management report that is to be included in the integrated report.

6.5 External Audit

The Committee is responsible for recommending the appointment of the external auditor and to oversee the external audit process and must in this regard:

- i. Nominate for appointment as auditor of the Company under section 90, a registered auditor, who in the opinion of the audit committee, is independent of the Company; (Companies Act – S94(7)(a));
- ii. Determine the fees to be paid to the auditor and the auditor's terms of engagement (Companies Act – S94(7)(b));
- iii. Ensure that the appointment of the auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors; (Companies Act – S94(7)(c));
- iv. Determine, subject to the provisions of Chapter 3 of the Companies Act, the nature and extent of any non-audit services that the auditor may provide to the Company, or that the auditor must not provide to the Company, or a related



Company; (Companies Act – S94(7)(d) and define a policy for non-audit services provided by the external auditor;

- v. Pre-approve any proposed agreement with the auditor for the provision of non-audit services to the Company (Companies Act – S94(7)(e);
- vi. Ensure that there is a process for the Audit and Risk Committee to be informed of any Reportable Irregularities (as identified in the Auditing Profession Act, 2005) identified and reported by the external auditor; and
- vii. Review the quality and effectiveness of the external audit process.

6.6 IT Governance

- (i) Review and approve IT charter and review policies and internal control framework.
- (ii) Receive independent assurance of effectiveness of IT internal controls, IT governance and controls supporting outsourced IT services.
- (iii) Review annual IT Governance report for: Compliance with IT laws and IT related rules, codes and standards; Assurance that information assets are managed effectively; evaluating significant IT investments and expenditure.

6.7 Compliance with laws, regulations and codes

Review the compliance and legal governance effectiveness within the Company, by, inter alia,

- (i) Considering the effectiveness of the system for monitoring compliance with laws and regulations.
- (ii) Ensuring that all relevant regulatory compliance matters have been considered in the preparation of the financial statements.
- (iii) Reviewing whistle blowing arrangements and reports in this regard.
- (iv) Considering reports from management in respect of the Company's compliance with laws and regulations.



-
- (v) Considering existing, new and emerging legislation and their potential impact and implications on the business.
 - (vi) Reviewing the application of the King III principles and any other applicable codes and disclosures to be made in this regard.

6.8 Other (Companies Act – S94(7)(g), (h) and (i))

- (i) to receive and deal appropriately with any concerns or complaints, whether from within or outside the Company, or on its own initiative, relating to –
 - (a) the accounting practices and internal audit of the Company;
 - (b) the content or auditing of the Company's financial statements;
 - (c) the internal financial controls of the Company; or
 - (d) any related matter.
- (ii) To make submissions to the board on any matter concerning the Company's accounting policies, financial control, records and reporting.
- (iii) To perform such other oversight functions as may be determined by the board.

7. AUTHORITY

The Committee acts in accordance with its statutory duties and the delegated authority of the Board as recorded in these terms of reference. It has the power to investigate any activity within the scope of its terms of reference.

The Committee, in the fulfilment of its duties, may call upon the chairpersons of the other Board committees, any of the executive directors, Company officers and Company Secretary or assurance providers to provide it with information subject to Board approved process.



The Committee has reasonable access to the Company's records, facilities and any other resources necessary to discharge its duties and responsibilities subject to following Board approved process.

The Committee may form, and delegate authority to, subcommittees and may delegate authority to one or more designated members of the Committee.

The Committee has the right to obtain independent outside professional advice to assist with the execution of its duties, at the Company's cost, subject to a Board approved process being followed.

The Committee shall, in addition to reporting to shareholders, report to the Board through the Chairperson, who shall provide a review of the deliberations of the Committee and its recommendations for Board consideration, noting and/or approval as appropriate.

The Committee has decision-making authority in regard to its statutory duties and is accountable in this respect to both the Board and the shareholders. To this end the chairperson of the Committee must be present at all annual general meetings.

On all responsibilities delegated to it by the Board outside of the statutory duties, the Committee makes recommendations for approval by the Board.

Where appropriate or otherwise as authorised by the Board, decisions of the Committee may be taken by way of a round robin resolution.



8. MEETINGS AND PROCEDURES

8.1 **Frequency**

The Committee must hold sufficient scheduled meetings to discharge all its duties as set out in these terms of reference but subject to a minimum of four meetings per year.

Meetings in addition to those scheduled may, with approval of the Chairperson, be held at the request of the external auditor, the Chief Executive Officer, Chief Financial Officer or other members of senior management or at the instance of the Board.

The Committee must meet with external auditors at least once a year without management being present.

8.2 **Attendance**

The Chief Executive Officer, Financial Director, Chief Risk Officer (if there is one), representatives from the external auditors, other assurance providers, professional advisors and Board members may be in attendance at Committee meetings, but by invitation only and they may not vote.

Committee members must attend all scheduled meetings of the Committee, as well as meetings called on an ad hoc-basis for special matters, unless prior apology, with reasons, has been submitted to the Chairperson or company secretary.

If the nominated chairperson of the Committee is absent from a meeting, the members present must elect one of the members present to act as chairperson.



Attendance of the meeting by members and invitees may be via video or teleconference and such members / invitees will be regarded as being present for that meeting.

8.3 **Agenda and Minutes**

The Committee must establish an annual work plan for each year to ensure that all the relevant matters are covered by the agendas of the meetings planned for the year.

The annual plan must ensure proper coverage of the matters laid out in the Audit and Risk Committee charter: the more critical matters will need to be attended to each year while other matters may be dealt with on a rotation basis over a three-year period. The number, timing and length of meetings and the agendas are to be determined in accordance with the annual plan.

A detailed agenda, together with supporting documentation, must be circulated, at least one week prior to each meeting to the members of the Committee and other invitees.

Committee members must be fully prepared for Committee meetings, to provide appropriate and constructive input on matters discussed.

The minutes must be completed as soon as possible after the meeting and circulated to the chairperson and members of the Committee for review thereof. The minutes must be formally approved by the Committee at its next scheduled meeting.



8.4 Quorum

A representative quorum for meetings is a majority of members. Individuals in attendance at Committee meetings by invitation may participate in discussions but do not form part of the quorum for Committee meetings.

9. EVALUATION AND REMUNERATION

Evaluation - The Committee must perform an evaluation of its effectiveness annually and report the outcomes to the Board.

Remuneration – Committee members shall be entitled to such remuneration as considered by the Remuneration and Nominations Committee annually and as recommended by the board to shareholders, for approval at the annual general meeting.

10. APPROVAL

These terms of reference were reviewed by the Committee on 21 November 2017 and approved by the Board on 23 November 2017 and will be due for review in November 2018.

11. REVIEW

These terms of reference will be reviewed annually against current legislation and practice.

Karabo Nondumo
COMMITTEE CHAIRPERSON