

AUDIT AND RISK COMMITTEE REPORT

The independent audit and risk committee (the committee) is pleased to present its report for the financial year ended 30 June 2018. The committee is constituted as a statutory committee of the company in respect of its statutory duties in terms of section 94(7) of the Companies Act 71 of 2008 (the Companies Act) and a sub-committee of the board in respect of all other duties assigned to it by the board. In terms of the company's listing on the JSE Limited (JSE), the company is also required to adhere to the King Report on Corporate Governance of South Africa 2016 (King IV).

The committee assists the board in carrying out its functions relating to the safeguarding of assets, the operation of adequate risk management and control processes and the preparation of financial statements in compliance with all applicable legislation and regulations, and the oversight of the external and internal audit appointments and function.

The role of this committee is an independent one with accountability to the board and to shareholders. It is also an overseer and makes recommendations to the board for final approval. The committee cannot assume the functions of management, which remains the responsibility of the executive directors, officers and senior management.

The committee does not provide relief to board members for their joint and several responsibilities regarding their fiduciary duties and they must continue to exercise due care and judgement in accordance with their legal obligations.

Role and associated responsibilities and function of the committee

The committee is responsible for overseeing the risk management process and internal control structure including financial controls, accounting systems and reporting, operational controls and compliance with laws and regulations. The committee has the following responsibilities:

Integrated reporting

In terms of good corporate governance and King IV, companies should produce an integrated report, which the committee must oversee. The committee must review the integrity of the integrated report including all the necessary reporting requirements in terms of King IV.

Combined assurance

The committee must ensure that the combined assurance policy and framework is applied and provides a co-ordinated approach to all assurance activities, and in particular, the committee shall:

- ensure that the combined assurance policy and framework is appropriate to address all the significant risks facing the company, and
- monitor the relationship between the external assurance providers of the company.

Chief financial officer (CFO) and the finance function

The committee must:

- on an annual basis, confirm that the CFO is suitably qualified and experienced, and must confirm this by reporting to shareholders in its annual report that the committee has executed this responsibility, and
- confirm that the finance department of the company has adequate resources and experience to manage the company's financial function. This must be reported in the integrated report.

AUDIT AND RISK COMMITTEE REPORT continued

Internal audit

The committee is responsible for overseeing the internal audit function and in so doing, it must do the following:

- Recommend the appointment or termination of the internal audit function to the board
- Where the internal audit function is outsourced to a firm, the committee may recognise the outsourced internal audit director or partner of the firm as the chief audit executive (CAE) if the committee chooses to appoint a CAE
- If a CAE has been appointed, the CAE should report to the chair of the committee on the performance of duties and functions that relate to internal audit. On other duties and administrative matters, the CAE should report to the member of executive management (CFO) designated for this purpose as appropriate for the organisation
- Approve the internal audit plan, mandate and budget with particular emphasis on risk areas
- Ensure that the internal audit function is independent and adequately qualified and resourced on a continuous basis and assess its performance
- Approve deviations from the approved internal audit plan or any changes in the audit scope or approach
- Review the extent to which the internal audit function has co-ordinated with other internal and external assurance providers in providing proper coverage
- Review the internal audit results and significant audit findings together with the relative management comments and action plans
- Consider and review any difficulties encountered in the course of the audits, including any restrictions on the scope of internal audit's work or access to required information.

Risk management

The committee is also responsible for the management of risk and its mitigation within the company and its subsidiaries, including the responsibility to:

- promote and enforce the highest degree of ethical standards in business practices within the organisation and in external relationships
- oversee the development and annual review of the company's risk management policy and framework and recommend the policy and framework for approval by the board
- monitor implementation of the risk management policy and framework
- make recommendations to the board concerning the levels of risk tolerance and appetite and monitor that risks are managed within the levels of tolerance and appetite as approved by the board
- ensure that risk management assessments are performed by management on a continuous basis
- ensure that the risk management policy and framework is widely disseminated throughout the company and integrated in the day-to-day activities of the company
- oversee internal financial controls, information technology (IT) risks, fraud risk and all risks associated with financial reporting
- ensure that management continuously monitors risk and its mitigation
- ensure that adequate insurance cover remains in place
- ensure that there is an adequate framework and methodology for both implementation and recommended changes in anticipation of 'black swan' (extraordinary/unexpected) events
- ensure that management considers and implements appropriate risk responses
- review the risk register and ensure that it is adequately updated and is complete, timely and relevant
- express the committee's formal opinion to the board regarding the effectiveness of the system and process of risk management
- review reporting concerning risk management which is to be included in the integrated report which should be done timely, comprehensively and should be relevant
- oversee and monitor the adequacy of internal controls within the company. Specifically related to financial reporting risks and fraud risks (and any incidents of fraud)
- the other board committees, namely the health, safety and environmental committee, investment committee, nomination committee and social, ethics and human resources committee, oversee potential risks pertaining to their mandates and the chairperson of each committee reports back to the board at each board meeting.

AUDIT AND RISK COMMITTEE REPORT continued

External audit

The committee's responsibilities are to recommend the appointment of the external auditor and to monitor the external audit process. To do this, the committee must:

- nominate an independent external auditor for appointment and approval by shareholders
- ensure that mandatory rotations of both the external auditor (once every 10 years) and the individual audit partner (once every five years) are conducted in accordance with the South African Institute of Chartered Accountants (SAICA), Independent Regulatory Board for Auditors (IRBA) and the Companies Act
- approve the engagement terms and remuneration of external auditors
- report and monitor the independence of the external auditor
- pre-approve non-audit services to be rendered
- define a policy for non-audit services to be provided by external auditors
- ensure that there is a process, in terms of which the committee is informed of any 'reportable irregularities', as identified in the Audit Profession Act No. 26 of 2005, identified and reported by the external auditor
- ascertain the effectiveness of the external audit process
- ensure that the audit firm and where appropriate, the individual auditor responsible for the audit function is accredited on the JSE list of auditors and their advisors as required by the JSE listings requirements.

Other responsibilities

- The committee shall have direct and unobstructed lines of communication to the board, external and internal auditors
- The committee shall have the right of access to records containing information needed to properly perform its duties and execute its powers.

Authority

- In terms of the audit function, the committee has decision-making authority with regard to its statutory duties; in this respect, it is accountable to both the board and shareholders. The chairperson of the committee must therefore be present at all AGMs
- In terms of its risk function responsibility, the committee acts in terms of the delegated authority of the board
- In fulfilling its duties, the committee may call upon the chairpersons of other board committees, any executive directors, company officers, company secretary, assurance providers or any other professional or person to provide it with information
- The committee may also have reasonable access to the company's records, facilities, employees and any other resources that may be necessary to discharge its duties and responsibilities
- The committee also has a right to obtain independent external professional advice in executing its duties if deemed appropriate
- The committee may form, delegate authority to, and direct sub-committees or members of the committee
- The committee makes recommendations to the board in any area of its ambit as it deems appropriate.

AUDIT AND RISK COMMITTEE REPORT continued

Composition of the committee, including each member's qualifications and experience

The committee shall comprise of at least 3 (three) non-executive board members elected by shareholders on the recommendation of the nomination committee. All members of the committee must be independent, non-executive board members, meet all applicable independence requirements, and be appropriately qualified as required by King IV.

The chairperson of the board is not eligible to be chairperson or a member of this committee and the chairperson of this committee must be an independent, non-executive director.

Collectively, members of this committee must have the appropriate mix of qualifications and experience in order to fulfil their duties. Such qualifications and skills will include expertise and/or experience in the following fields: financial, legal, risk management, sustainability issues and reporting, internal financial control, external and internal audit processes, IT governance, corporate governance, ethics and integrated reporting.

Members of the committee are required to ensure that they are fully apprised of the latest developments in the mining industry and in commerce generally.

Important attributes of the members are an independent and enquiring mind-set, a reasonable understanding of the complexities involved and an appreciation of the business and mining industry as a whole.

The board must elect the chairperson of this committee and any vacancy of this chairpersonship must be filled within 40 (forty) business days of it arising.

The tenure of committee members shall be reviewed in terms of the nomination charter.

Below is a summary of the audit and risk committee members:

Member	Qualification	Committee member since	Board status
HH Hickey (chairperson)	CA(SA)	1 January 2016	Independent non-executive director
R Havenstein	MSc (Chemical Engineering); BCom	22 June 2009	Lead independent director
TE Kgosi	BCom (Hons)	2 February 2005	Independent non-executive director
DH Brown	CA(SA)	7 November 2017	Independent non-executive director

AUDIT AND RISK COMMITTEE REPORT continued

Number of meetings held during the reporting period and attendance at those meetings

At least 2 (two) meetings must be held per annum, however, the committee and management may agree on appropriate scheduled meetings. At least once a year the committee must meet with the internal and external auditors without the presence of management.

Audit and risk committee member	16 August 2017	18 September 2017	6 November 2017	14 February 2018	18 June 2018
HH Hickey	√	√	√	√	√
R Havenstein	√	√	√	√	√
TE Kgosi	√	√	√	√	√
DH Brown*	N/A	N/A	N/A	√	√

* DH Brown was appointed as a director and audit and risk committee member on 7 November 2017

The committee met with the internal and external auditors without the presence of management at the meeting held on 16 August 2017 and 14 February 2018.

External advisers or invitees who regularly attend committee meetings

The committee may invite the chief executive officer (CEO), CFO, other senior management representatives, external auditors, internal auditors, other assurance providers, professional advisers and board members to attend its meetings should it so require. These parties will have no voting power.

Committee members must attend all scheduled meetings including ad-hoc meetings unless prior apology with reasons has been submitted to the chairperson or company secretary. If the nominated chairperson is unavailable, members may elect one of the members present to act as chairperson. The company secretary is the secretary of this committee unless she is unavailable, in which case the committee may appoint a person to take minutes.

The CFO, head of internal audit and external audit shall have unrestricted access to the chairperson or any other member of the committee as is required in relation to any matter falling within the remit of the committee.

The following external advisers or invitees attended the various audit and risk committee meetings during the year:

External adviser/invitee	16 August 2017	18 September 2017	6 November 2017	14 February 2018	18 June 2018
CEO: PA Dunne	√	√	√	√	√
CFO: AZ Khumalo	√	√	√	√	√
Chairman of the board: KB Mosehla	N/A	N/A	N/A	√	N/A
Group financial controller: AH Coetzee	√	√	√	√	√
EY external audit partner: M Herbst (30 June 2017)	√	√	N/A	N/A	N/A
EY external audit partner: E Dhorat (30 June 2018)	√	√	√	√	√
EY external audit manager: V Tu	√	√	√	√	√
EY external audit manager: P Matlala	N/A	N/A	N/A	N/A	√
KPMG internal audit partner: T Gouws	√	√	√	√	√
KPMG internal audit manager: V Singh	√	Apology	Apology	√	N/A
KPMG internal audit manager: A Mahado	N/A	N/A	N/A	N/A	√

AUDIT AND RISK COMMITTEE REPORT continued

Key areas of focus during the reporting period

In addition to the execution of the committee's statutory duties, below are a number of key areas of focus during the 30 June 2018 financial year:

Financial reporting with regards to both the reviewed interim results and the audited annual financial statements

- Ensured that complex accounting areas comply with International Financial Reporting Standards (IFRS)
- Evaluated significant accounting judgements and estimates as disclosed in the annual financial statements
- Discussed the accounting treatment of significant accounting and auditing matters including non-routine transactions with management and the external auditors
- Reviewed and assessed any adjusted and unadjusted audit differences reported by the external auditors
- Reviewed and assessed management's assessment of impairment indicators and management's assessment of the recoverable value of assets
- Reviewed the key audit matters communicated by the external auditors in their audit report in terms of International Standard on Auditing (ISA) 701
- Reviewed the dividend proposal to the board
- Reviewed the representation letter that management signed
- Considered and approved management's assessment of the ability to continue as a going concern.

New accounting standards

The committee considered new standards, interpretations and amendments to standards in issue that are not yet adopted but are likely to affect the financial reporting in future years and disclosure thereof in the annual financial statements.

Tax exposure

The committee reviewed the tax exposures (including uncertain tax positions) with specific focus on the effective tax rates, and considered the impact that pending changes to the tax legislation will have and the accounting of any tax exposures.

Corporate governance

The committee reviewed and approved risk management policies and processes and received reports incorporating the key strategic and operational risks.

The committee also monitored the progress of assessing the recommended practices underpinning the 16 Principles of King IV ensuring that an ethical culture is created that supports the effective control of the organisation at all levels.

The committee also assessed the combined assurance process to enable an effective integrated internal control environment that supports the integrity of information used for internal decision making by management, the board and its committees as well as supporting the integrity of external reports.

The committee also monitored compliance with laws and regulations.

The committee also received feedback regarding any significant litigation and assessed the possible impact thereof on the financial results.

Key audit matters

The committee reviewed the key audit matters, that the auditors in their professional judgement considered to be the most significant in their audit of the consolidated and separate financial statements for the current year. The key audit matters highlighted in the independent auditors report were the following:

- Impairment of non-financial assets
- Physical quantities of inventory

The committee has considered the work performed by the auditors and believe that these key audit matters have appropriately been addressed by the auditors as well as management.

AUDIT AND RISK COMMITTEE REPORT continued

Assessment of the independence and quality of the external auditor, Ernst & Young Incorporated (EY)

The following factors were considered in evaluating the independence and quality of the external auditors:

- Tenure of service
- Quality of planning, delivery and execution of the audit
- Experience and knowledge of the audit team, specifically the senior management team, including the engagement partner
- Results of the most recent Independent Regulatory Board for Auditors (IRBA) regulatory reviews and the responses of the firm on observations raised in these reports
- Robustness of the audit, including the audit team's ability to challenge management, and demonstrate professional scepticism and independence

EY has been the group's external auditor for more than 34 years. However the audit partner, rotates every five (5) years with Mr E Dhorat taking over from Mr M Herbst effective for the financial year ended 30 June 2018. Internally EY has a number of safeguards to ensure that all members of the audit team are independent.

A formal policy regarding the approval of all non-audit services has been implemented. The committee receives updates on tax and non-audit fees as a percentage of the total audit and audit related fees at each committee meeting confirming that fees were within the approved limits and that the external auditors independence has not been jeopardised.

During the 30 June 2018, the following fees were charged by the external auditors:

	2018	2017
	R000	R000
Audit services	4 852	4 642
Audit services Zambezi Platinum (RF) Limited	523	493
Assurance : sustainable development report	297	295
Audit services: ISRE 2410 review	740	663
Audit services: ISRE 2410 review Zambezi Platinum (RF) Limited	69	64
Non-audit fees	133	139
Non-audit fees for tax related services	–	–
Assurance reports	500	–
	7 114	6 296

The committee has received the necessary representation from the auditors confirming:

- that no other remuneration was received for work performed other than what has been disclosed
- their independence was not impaired by any consultancy, advisory or other work performed during the period under review
- their independence was further not prejudiced by any previous appointment as auditor
- the criteria specified for independence by the IRBA and international regulatory bodies have been met.

The committee, based on their assessment of the independence and effectiveness of the external auditor, did not note any significant findings or considerations to indicate that the external auditor has not been independent or that the services provided by the external auditor have not been effective and robust.

The committee also assessed the suitability of the external auditors and the designated individual partner, in terms of the JSE listings requirements, prior to recommending their re-appointment and recommends that Ernst & Young Incorporated, with the designated registered auditor being Mr E Dhorat, be reappointed for the financial year ending 30 June 2019.

AUDIT AND RISK COMMITTEE REPORT continued

Significant matters that the committee has considered in relation to the annual financial statements

The following significant matters were considered in relation to the annual financial statements for the year ended 30 June 2018:

- Assessment of the recoverable values in terms of IAS 36 Impairment of assets
- Going concern assessment
- Investment in associates and joint ventures
- Inventories
- IFRS 2 Share based payment liability
- Property, plant and equipment
- Capitalisation of borrowing costs
- Zambezi Platinum (RF) Limited preference share liability
- Investment in Zambezi Platinum (RF) Limited preference shares (in Northam Platinum Limited company accounts)
- Environmental liabilities
- Taxation
- Toro Employee Empowerment Trust
- Dividend consideration

The committee has deliberated on these matters and is comfortable that they have been correctly accounted for in terms of the requirements of IFRS and are fairly represented in the annual financial statements.

In addition, the committee received a detailed report relating to the group's tax position, including uncertain tax positions, tax provisions, status of the group's tax compliance and relevant developments impacting the group.

The committee evaluated the consolidated and separate annual financial statements for the year ended 30 June 2018 and concluded that they comply, in all material aspects with the requirements of the Companies Act, IFRS, and the JSE listings requirements. The committee therefore recommended the approval of the annual financial statements to the board.

AUDIT AND RISK COMMITTEE REPORT continued

Effectiveness of the CAE and the arrangements for internal audit

A CAE position has not been provided for in the arrangements relating to internal audit. The internal audit function has been outsourced to KPMG Services Proprietary Limited (KPMG). The responsibilities normally associated with that of a CAE have been allocated to the director in charge of the internal audit function.

The committee believes that the KPMG director, Mr T Gouws, has the necessary competence, gravitas and objectivity to fulfil these duties. He also has unrestricted access to the chair of the committee.

Internal audit reports to the chair of the committee with regards to the performance of duties and functions. On other duties and administrative matters they report to the CFO.

The following functions are performed by internal audit:

- Assessment of compliance with laws and regulations
- Evaluation of the effectiveness of internal controls over financial reporting and internal controls in general
- Reporting findings to management and the committee and monitoring the remediation of all significant deficiencies reported
- Assistance with the implementation of the Combined Assurance Framework.

The committee has ensured that internal audit performed an independent assurance function and monitored the effectiveness of the internal audit function in terms of its assurance scope, executing its plan, independence and overall performance of the function.

The committee also monitored the audit findings, risk areas and, where appropriate, challenged management on actions taken.

The committee has ensured coverage of the audit universe by approving the audit plans and budgets for internal audit and has confirmed the competence of the internal audit function as a whole.

The committee has considered the written assurance statement provided by KPMG, confirming that nothing has come to their attention indicating that the group's system of internal financial controls is not effective and does not provide reasonable assurance that the financial records may be relied upon for the preparation of the annual financial statements.

Recent negative publicity about the company's internal auditors, KPMG, resulted in an internal review of their suitability to continue providing internal audit services to Northam. The Audit and Risk Committee has, after due consideration and assessment of their independence, qualifications and performance of the internal audit team providing services to Northam, decided to retain the services of KPMG as the group's internal auditors. This decision will be reviewed on a continuous basis, taking into account the outcome of pending investigations.

Effectiveness of the design and implementation of internal financial controls

Based on the assessment of the formal documented review conducted by the group's internal audit in terms of the combined assurance model of the system of internal controls and risk management, including the design, implementation and effectiveness of the internal financial controls and considering information and explanations given by management and discussions with both the internal and external auditors on the results of their audits, nothing has come to the attention of the committee that has indicated that the system of internal controls and risk management is not effective and the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

The committee assessed the systems of internal control including financial controls, business risk management and maintaining effective internal control systems. Based on the assessment, the committee concluded that there were no material breakdowns in internal controls during the year under review.

Effectiveness of the CFO and the finance function

The committee reviews an internal assessment of the skills, expertise and resourcing of the finance function as well as the expertise and experience of the CFO, Mr AZ Khumalo. The committee is satisfied with the appropriateness of the expertise and experience of the CFO and the effectiveness of the finance function overall as well as the adequacy of resources.

Based on the processes and assurance obtained, the committee believes that the accounting practices are effective.

AUDIT AND RISK COMMITTEE REPORT continued

Arrangements in place for combined assurance and the effectiveness of combined assurance

Optimising the combined assurance model avoids duplication of efforts, rationalises collaboration efforts amongst assurance providers, as well as effectively managing assurance costs. The activities are co-ordinated to maximise the depth and reach of assurance achieved by each of the assurance providers. Enabling an effective control environment and ensuring the integrity of information used for reporting and decision-making.

The committee reviewed the combined assurance framework that categorises each assurance provider into the various lines of defence. The committee also reviewed the level of assurance provided through the combined assurance framework and concluded that the assurance provided was appropriate to address the various financial risks.

The committee believes that the combined assurance model adequately addresses the risks and material matters through the aggregated efforts of the various assurance providers.

Conclusion

The committee is satisfied that it has considered and discharged its responsibilities in line with its terms of reference, statutory responsibilities and King IV during the year under review.

On behalf of the committee.

HH Hickey
Chairman

Johannesburg
28 August 2018