

# AUDIT AND RISK COMMITTEE: CHAIRMAN'S REPORT



“The committee’s diverse perspectives, independence, knowledge and experience increases the value of Harmony’s governance structures”

**Fikile De Buck:** Chairman audit and risk committee

Harmony’s audit and risk committee (the committee) is pleased to present its report for the financial year ended 30 June 2018 (FY 18). This report addresses various material issues beyond compliance with the statutory requirements relating to an audit committee.

## Introduction

The committee is an independent statutory committee appointed by Harmony’s shareholders. In compliance with section 94 of the Companies Act of 2008 (the Act) and the principles of good governance, shareholders annually appoint certain independent directors as members of the audit committee to fulfil the statutory duties as prescribed by the Act.

In addition, Harmony’s board of directors (the board) delegates specific oversight functions to the committee.

This report considers these statutory and delegated duties as well as the committee’s responsibilities in terms of the JSE Listings Requirements. It also addresses some of the matters that the King IV Code on Corporate Governance, 2016 (King IV) advises should be considered by an audit committee.

## Terms of reference

The committee has formal terms of reference, which are reviewed and updated annually as necessary (or more frequently if required) by both the committee and the board. The committee is satisfied that it has conducted its affairs in accordance with its terms of reference and has discharged its responsibilities.

The committee’s terms of reference can be accessed at our corporate website, [www.harmony.co.za](http://www.harmony.co.za).

## Composition and function

During the course of the year, the nomination committee considered the composition and roles of the board committees. This process ensures independence and that these committees remain refreshed. As a result of this process, it was agreed that John Wetton be replaced by Ms Fikile De Buck as chairman of the committee. Mr Wetton remains a committee member and also serves as the deputy chairman of the committee. The committee thanks Mr Wetton for his invaluable commitment and service throughout his tenure as chairman of the committee.

The committee’s diverse perspectives, independence, knowledge and experience increase the value of Harmony’s governance structures. For details of the qualifications, expertise and experience of the members of the audit and risk committee, refer to *Board of directors*.

Recommendations for the appointment of members to the committee for the new financial year can be found in the notice of annual general meeting in the *Report to shareholders 2018* that accompanies the annual financial statements.

The group chief executive, the financial director, the executive: risk management and services improvement, the executive: ore reserves, the group IT manager, the external auditors, the chief audit executive and other assurance providers attend meetings either by standing invitation or as and when required.

As at the date of this report, the committee comprised the following independent members:

Name	Status	Date appointed
Fikile De Buck (chairman)	Independent non-executive director	30 March 2006 (Chairman with effect from 10 May 2018)
John Wetton	Independent non-executive director	1 July 2011
Dr Simo Lushaba	Independent non-executive director	18 October 2002
Modise Motloba	Independent non-executive director	30 July 2004
Karabo Nondumo	Independent non-executive director	3 May 2013

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## Roles and responsibilities

The committee is satisfied that it complied with its legal, regulatory and other responsibilities during the past financial year. The committee's primary objective is to assist the board with its responsibilities of ensuring the integrity of financial statements, the management of risk and cyber security, as well as the safeguarding of assets. Additionally, the committee is mandated to provide oversight of financial control and reporting on internal controls, shareholder reporting and corporate governance, particularly relating to legislative and regulatory compliance.

The committee's roles and responsibilities include statutory and regulatory duties as per the Act, the JSE Listings Requirements and those items recommended in the interest of good governance according to King IV. In addition, the board has assigned other ad hoc duties to the committee, embodied in its terms of reference.

The board conducts annual reviews of the committee's duties and terms of reference as well as annual assessments of its performance, in a manner determined by the board.

No major concerns were raised by any member of the committee in FY18.

For more on the committee and its activities during the year under review, see [Corporate governance](#).

## The integrated annual report

The committee is responsible for overseeing the group's integrated annual report and the reporting process. This integrated annual report, which has been reviewed by the committee, focuses not only on the group's financial performance, but also its economic, social and environmental performance. This report sets out how the group has engaged with stakeholders, addressed its material issues and governed its business. The committee is satisfied with the quality and integrity of the information contained in the integrated annual report 2018 and recommended it to the board for approval.

## Annual report filed on Form 20-F with the United States Securities and Exchange Commission

The committee has reviewed the annual report filed on Form 20-F for the year ended 30 June 2018 and recommended the report to the board for approval.

## Annual financial statements and accounting practices

The committee reviewed the audited annual financial statements and summarised consolidated financial statements for the year ended 30 June 2018. The statements comply with International Financial Reporting Standards and no significant matters were identified by the committee in that regard. The committee submits that they present a balanced view of the group's performance for the period under review.

The committee considered the JSE's most recent report back on proactive monitoring of financial statements, and where necessary those of previous periods, and has taken appropriate action where necessary to respond to the findings as highlighted in the JSE report when preparing the annual financial statements.

The committee recommended the annual financial statements and summarised consolidated financial statements to the board for approval.

## External auditor appointment and independence

The committee is satisfied that the external auditor, PricewaterhouseCoopers (PwC), is independent of the group, as set out in section 94(8) of the Act. This opinion is based on consideration of previous appointments of the auditor and the extent of other work the auditor has undertaken for the group. In a written statement addressed to the committee, PwC confirmed that their independence complies with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors, the Public Company Accounting Oversight Board, the American Institute of Certified Public Accountants and the Securities and Exchange Commission. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its independence.

The committee ensured that the appointment of the auditor complies with the requirements of the Act and other applicable legislation relating to the appointment of auditors. The committee, in consultation with management, agreed to the engagement letter and terms, and to the audit plan as well as scope of work performed and budgeted audit fees for the 2018/19 year.

A formal procedure has been adopted to govern the process whereby the external auditor may be considered for non-audit services and the extent of these services is closely monitored by the committee.

Fees paid to the external auditor for the year were R35.8 million, of which R35.1 million was for audit related services, R0.2 million for non-audit services and R0.5 million for tax services.

## Tenure of the audit firm

PwC has been the group's external auditor for 68 years. At the annual general meeting held on 23 November 2017, PwC was reappointed as the independent external auditor and undertook to hold office until the conclusion of the 2018 annual general meeting.

The committee considered the suitability of PwC and designated audit partner as required by paragraph 3.84(g) (iii) of the JSE Listings Requirements and found same to be adequate based on PwC's submission of the relevant information as required by paragraph 22.15 (h) of the JSE Listings Requirements.

The individual registered auditor responsible for the audit for the financial year ended 30 June 2018 was Mr HP Odendaal. As PwC is required to rotate the audit partner responsible for the group audit every five years, the current lead audit partner will be required to change from FY21 onwards.

As part of Harmony's commitment to transformation, PwC continued to partner with Ngubane & Co., a black audit firm, as part of the PwC engagement team. To facilitate the transfer of skills in the audit of mining companies and SEC registrants, Ngubane & Co. assisted PwC on the audit of Harmony's South African operations. PwC had overall responsibility for the audit and signed off the financial statements. Ngubane & Co. is a level 1 broad-based black economic empowerment company.

The committee has recommended to the board that PwC be re-appointed as the group's independent external auditor, to hold office until the conclusion of the 2019 annual general meeting.

The directors will propose the re-appointment of PwC at the annual general meeting to be held on 7 December 2018. Details can be found in the notice of the annual general meeting in the Report to shareholders 2018 that accompanies the annual financial statements.

Mandatory audit firm rotation is effective from financial years commencing on or after 1 April 2023 and is applicable to listed companies, as well as all public interest entities, to promote superior audit quality and audit independence. Harmony is supports the process, and further details will be provided to shareholders at the 2019 annual general meeting.

### Internal controls

The committee considers significant control deficiencies raised by management and by the internal and external auditors, and reports its findings to the board. Where weaknesses are identified, the committee ensures that management takes appropriate action.

Based on a review of the design, implementation and effectiveness of the group's system of internal financial controls conducted by the internal audit function during the year under review, and on reports made by the independent external auditors on the results of their audit and management reports, the committee is satisfied that the company's system of internal financial controls is effective and forms a basis for the preparation of reliable financial statements. No findings have come to the attention of the committee to indicate that any material breakdown in internal controls occurred during the past financial year.

### Internal audit

In accordance with the requirements of King IV, the committee confirms that, having considered the effectiveness of the chief audit executive, Ms Besky Ngunjiri, it is satisfied that she has the appropriate expertise and experience to meet the responsibilities of this position. The committee is also satisfied that the internal audit function is adequately resourced with technically competent individuals and operates both effectively and efficiently.

The committee is responsible for:

- ensuring that the group's internal audit function is independent and has the necessary resources, standing and authority within the group to enable it to perform its duties
- oversees co-operation between the internal and external auditors, and serves as a link between the board of directors and these functions

The chief audit executive is responsible for regularly reporting the findings of the internal audit work against the agreed internal audit plan to the committee.

She has direct access to the committee, primarily through its chairman.

During the year, the committee met with the external auditors and with the chief audit executive without management being present.

The committee is satisfied that the group internal audit follows an approved risk-based internal audit plan and regularly reviews the group's risk profile with necessary changes to the internal audit plan being proposed as and when deemed appropriate. Internal audit provides an overall statement as to the effectiveness of the group's governance, risk management and control processes.

### Combined assurance

The committee is satisfied that the group has optimised the assurance coverage obtained from management, and internal and external assurance providers, in accordance with an appropriate approved combined assurance model. The committee is also satisfied that the combined assurance model and related systems and procedures are effective in achieving the following objectives:

- Enabling an effective internal control environment
- Supporting the integrity of information used for internal decision-making by management, the board and its committees
- Supporting the integrity of external reports
- Minimising assurance fatigue

### Going concern

The audit committee has reviewed a documented assessment, including key assumptions prepared by management, of the going-concern status of the group. The board's statement on the going-concern status of the group, as supported by the audit committee, appears in the directors' responsibility for financial reporting section of the integrated annual report.

### Governance of risk

The audit committee fulfils a dual function, being both an audit committee and a risk committee. Internal audit conducts regular and full assessments of the risk management function and framework. The committee is satisfied with the effectiveness of its oversight of the governance of risk in the group. A detailed report on risk, as recommended in King IV, is contained in this integrated annual report. See *Managing risks and opportunities*.

## Information and technology governance

The board recognises that technology is now more than just an enabler, but that technology is both a source for future opportunities and platforms on which our organisation conducts its business.

The audit and risk committee has delegated responsibility to management for implementing the policy on enterprise-wide information and technology management, and for embedding it into the day-to-day, medium- and long-term decision-making activities and culture of the organisation.

During the period under review, *inter alia*, management reviewed and expanded governance of the information technology (IT) project management office, implemented an information security management system, integrated its IT systems at Moab Khotsong and ensured the alignment of adequately skilled resources to support operational and project initiatives as per the approved strategy.

### Events subsequent to June 2018

- On 12 July 2018, shareholders approved a special resolution to issue 11 032 623 new ordinary shares to African Rainbow Minerals Limited at the placing price of R19.12 (ARM Placing). The proceeds of R211 million (US\$16 million) raised from the ARM Placing were used to repay part of the outstanding bridge loan raised for the acquisition of Moab Khotsong
- On 18 July 2018, the remaining outstanding balance of US\$50 million (R670 million) was repaid on the US\$200 million bridge loan
- On 4 October 2018, Harmony reached a mutually acceptable settlement with the Financial Sector Conduct Authority of South Africa. The dispute related to incorrect financial results reported for the March 2007 quarter. Harmony informed shareholders and the authorities of the error in August 2007. Subsequently Harmony reviewed all financial accounting procedures and systems to ensure that a similar error would not occur. Following various discussions with the authorities, an administrative penalty of R30 million was imposed and paid by Harmony

### Fikile De Buck

**Audit and risk committee: Chairman**  
25 October 2018