

SECTION 4.4

Audit Committee Report

INTRODUCTION

The Audit Committee is pleased to present its report for the year ended 31 December 2021, as recommended by King IV. The Committee is constituted by the Board, has an independent role, and is accountable both to the Board and to shareholders.

The Committee's mandate is set out in its terms of reference and includes the following responsibilities:

- Monitoring the accuracy and integrity of the Group's financial and other reporting;
- Monitoring the effectiveness of risk management processes and internal controls;
- Recommending the appointment of external auditors to shareholders on an annual basis;
- Reviewing the independence of the external auditor;
- Reviewing the scope, results and cost-effectiveness of independent accounting and valuation services; and
- Reviewing the expertise and experience of the Chief Financial Officer.

COMPOSITION

The Committee comprises the following Independent Non-Executive Directors who have the requisite skills and experience to fulfil the Committee's duties:

- Mr Carel Malan (Chair);
- Mr Lumkile Mondli; and
- Ms Mary Reilly.

The performance of the members of the Audit Committee is evaluated on an annual basis by the Board.

MEETINGS

In addition to the Committee members, the CFO may attend meetings by invitation. The Chair of the Committee usually meets

separately with both the CFO and the external auditor before Committee meetings. The Committee may meet with the external auditor either formally or informally throughout the year; the audit partner has access to the Committee via the Chair. The Chair of the Committee decides whether to convene any ad-hoc meetings and who should be invited to such meetings. Three formal Audit Committee meetings were held during 2021.

INTERNAL AUDIT

King IV recommends that all companies implement an internal audit function that is in-sourced to some degree. In the period from 1 August to 31 December 2021, Mr Robin Griffiths, the Group's Director Internal Audit, was seconded to another area of the business and therefore no substantial internal audit activities were performed. Mr Robin Griffiths' employment with the Company ended on 31 December 2021. Mr Oscar Loreti, who deputised for Mr Griffiths, is now running the Company's in-house internal audit function, whilst supplementary external support is being considered. The Gemfields Internal Audit function reports functionally to the Chairman of the Audit Committee, thereby ensuring its independence. The Audit Committee is satisfied that the Group's internal financial controls and the arrangements for internal audit were working effectively during the period, and were predominantly adequate and fit for purpose.

EXTERNAL AUDIT

The Committee is satisfied that BDO, as external auditor to the Company, is entirely independent of the Group. The Committee is satisfied with the policies and controls in place which address the provision of non-audit services received from BDO. BDO has been appointed as external auditor to the Company since 8 January 2018 (and prior to that were the auditors of Gemfields plc since 2004), with the current audit partner rotating on to the audit from the 2018 year-end for a five-year mandatory period. The Committee was satisfied with the performance of BDO as external auditor to the Company in the 12-month period to 31 December 2021.

Following a competitive tender process and a recommendation from the Audit Committee, on 2 December 2021, the Company resolved to appoint Ernst and Young LLP (“EY”) as its statutory auditors, commencing with the half year ending 30 June, subject to ratification by shareholders in the Company’s 2022 Annual General Meeting. The Board and the Audit Committee took the view that this change of auditors promotes good corporate governance given the long period that the incumbents, BDO, have been in position. BDO have completed the Company’s audit for the financial year ending 31 December 2021 and will formally resign in due course enabling EY to confirm their appointment and commence their work. BDO’s work will continue for a limited period beyond the completion of the Company’s audit until such time that the audits of certain Group subsidiaries is completed.

RISK COUNCIL

A Risk Council was established in December 2019 as a subcommittee of the Audit Committee. Its principal purpose is to monitor current and emerging strategic operations and ethics risks and challenges facing the Group. It has its own terms of reference. Its members are made up of a cross-section of senior employees across the head office in London and it is chaired by Mary Reilly (who replaced Martin Tolcher as Chairperson on 17 March 2021). The Risk Council meets quarterly and its recommendations are reported to the Audit Committee in advance of its own committee meetings. When the Audit Committee does not meet, the Risk Council reports to the Board before its meetings. The Risk Council’s primary focus in 2021 was the establishment of a new Enterprise Risk Management Framework and assessment of group-wide risks. Such risks and issues are detailed in the Risks and Uncertainties section above.

DUTIES CARRIED OUT IN 2021

During the year ended 31 December 2021, the Committee carried out its duties as required by King IV and its terms of reference.

The Committee performed the following statutory duties:

- Considered the qualifications, independence and objectivity of BDO and approved its terms of engagement;
- Reviewed the performance of the external auditor and confirmed that the external auditor, the partner and the firm have complied with the suitability requirements of the JSE as detailed in paragraph 22.15(h) of the JSE Listings Requirements;
- Considered the appropriateness of the Group’s going-concern assessment – particularly in light of the Covid-19 pandemic;
- Following a competitive tender process, recommended the change of Company auditor from BDO to Ernst and Young, to the Board;
- Approved the fees paid to BDO during 2021, which were for both audit and non-audit services; and

- Ensured that the independence of BDO has not been compromised for any reason.

In addition, the Committee performed the following duties in line with its mandate:

- Reviewed the Group annual and interim Consolidated financial statements for compliance with the IFRS, the JSE Listings Requirements and the Companies (Guernsey) Law, 2008;
- Reviewed significant judgements and unadjusted differences resulting from the audit and interim review;
- Reviewed and recommended to the Board for approval the valuation of the Group’s investments;
- Ensured that the Group’s accounting policies are suitable and considered the adoption of new and amended accounting standards;
- Considered the performance of the Group’s accounting function;
- Considered paragraph 3.84(k) of the JSE Listing Requirements, which require the CEO and CFO to prepare a responsibility statement. In particular, the requirement for the Executive Directors to confirm the adequacies of internal financial controls, disclose any deficiencies in design and operational effectiveness of the Audit Committee and confirm that the annual Consolidated Financial Statements fairly present in all material respects the financial position, financial performance and cash flows of the Company in terms of IFRS;
- Reviewed the performance of the CFO, and was satisfied that the CFO continues to possess the appropriate expertise and experience to carry out his responsibilities as CFO; and
- Reviewed the Audit Committee Report included in the Company’s previous Annual Report.

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

The Committee has reviewed this Annual Report and the Consolidated Financial Statements and has concluded that they comply in all material respects with the IFRS, the JSE Listings Requirements, the AIM Rules for Companies and the Companies (Guernsey) Law, 2008. The Committee has therefore recommended the approval of the Annual Report to the Board.

CONCLUSION

The Committee is satisfied that it has considered and discharged its responsibilities in accordance with its mandate and its terms of reference during 2020. Accordingly, this report was recommended by the Audit Committee and was approved by the Board on 24 March 2022.

Carel Malan

Chair of the Audit Committee