

## **CAIRN ENERGY PLC AUDIT COMMITTEE – TERMS OF REFERENCE (MARCH 2019)**

### **1. Constitution and authority**

- 1.1. The audit committee (the "Committee") is constituted as a committee of the board of directors (the "Board") of Cairn Energy PLC (the "Company") in accordance with the Articles of Association of the Company.
- 1.2. The Committee has the delegated authority of the Board in respect of the functions, powers and responsibilities set out in these terms of reference.
- 1.3. The Committee may sub-delegate any or all of its powers and authority to one or more of its members including, without limitation, the establishment of sub-committees which are to report back to the Committee.

### **2. Membership**

- 2.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Audit Committee (the "Committee Chair"). All members of the Committee shall be independent non-executive directors.
- 2.2 At least one member of the Committee shall have recent and relevant financial experience, ideally with a professional qualification from one of the accountancy bodies and at least one (same or other) member must have competence in accounting or auditing, or both. The Committee as a whole shall have competence relevant to the sector in which the Company operates. The Chair of the Board shall not be a member of the Committee.
- 2.3 The Board shall appoint the Committee Chair. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting. The chair of the Board shall not be a member of the Committee.
- 2.4 Only members of the Committee have the right to attend Committee meetings. However, the Chief Executive, the Chief Financial Officer, the Deputy Finance Director, the Group Finance Manager, and the Group Risk & Compliance Manager may be invited to attend all or part of any meeting as and when appropriate and necessary. Both the external and internal auditors will be invited to attend meetings of the Committee on a regular basis.

### **3. Secretary**

- 3.1 The Company Secretary or his / her nominee shall act as the Secretary of the Committee and will ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

### **4. Quorum**

- 4.1 The quorum necessary for the transaction of business shall be two members.

### **5. Frequency of Meetings**

- 5.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 5.2 Outside of the formal meeting programme, the Committee Chair (and to a lesser extent, the other Committee members, as appropriate) will maintain a dialogue with key individuals involved in the Company's governance, including the chair of the Board, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the head of internal audit.

## **6. Notice of Meetings**

- 6.1 Meetings of the Committee shall be convened by the Secretary of the Committee at the request of any of its members or at the request of the external audit lead partner or head of internal audit if they consider it necessary.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee and any other person required to attend in sufficient time to allow the Committee to consider the papers. Supporting papers shall be sent to Committee members at the same time. Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

## **7. Minutes of Meetings**

- 7.1 The Secretary (or his / her nominee) shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2 Draft minutes of Committee meetings shall be sent to the Committee Chair for comment, following which minutes should be circulated to all other members of the Committee and to the Board for approval.

## **8. Annual General Meeting**

- 8.1 The Committee Chair should attend the Company's annual general meeting to answer shareholder questions on the Committee's activities.

## **9. Purpose and Duties**

### **9.1 Primary Purpose**

- 9.1.1 The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders, the Company's system of internal controls and risk management, the internal and external audit process and auditors and the process for compliance with applicable laws, regulations and ethical codes of practice.
- 9.1.2 The Committee aims to satisfy itself that the sources of assurance and information it has used to carry out its roles to review, monitor and provide assurance or recommendations to the Board in respect of 8.1.1 above are sufficient and objective.

### **9.2 Duties**

- 9.2.1 The Committee should have oversight of the Group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent Company, major subsidiary undertakings and the Group as a whole.

### **9.3 Financial reporting**

- 9.3.1 The Committee shall monitor the integrity of the financial statements of the Company and the Group, including its annual and half-yearly reports, preliminary results announcements and any other formal announcement relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the external auditor.
- 9.3.2 In particular the Committee shall review and challenge where necessary:

- 9.3.2.1 the application of significant accounting policies and any changes to them, as well as the quality, appropriateness and consistency of significant accounting policies both on a year by year basis and across the Company / Group;
  - 9.3.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 9.3.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 9.3.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
  - 9.3.2.5 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management, as well as certain underlying information including (but not limited to) the Group's reserves and resources reports, and the Group's corporate assumptions; and
  - 9.3.2.6 the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the Company and the Group looking forward over an appropriate and justified period).
- 9.3.3 The Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.
- 9.3.4 Where the Committee is not satisfied with any aspect of proposed financial reporting by the Company, it shall report its views to the Board.

#### **9.4 Narrative reporting**

- 9.4.1 Where requested to by the Board, the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy and whether it informs the Board's statement in the annual report on these matters that is required under the UK Corporate Governance Code.

#### **9.5 Internal controls and risk management systems**

The Committee shall (on behalf of the Board which retains overall responsibility for risk management):

- 9.5.1 keep under review the adequacy and effectiveness of the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and
- 9.5.2 review and approve the statements to be included in the annual report concerning internal controls, risk management and the viability statement.

#### **9.6 Risk management and ongoing viability**

The Committee shall:

- 9.6.1 regularly review the effectiveness of the risk management function, and seek such assurance as it may deem appropriate that the function is adequately resourced and has appropriate standing within the Company, with the risk management process being appropriately embedded into the business;
- 9.6.2 review the assurance reports from management on the effectiveness of the internal control and risk management systems and from internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control;
- 9.6.3 ensure that the Group Risk & Compliance Manager is given the right of unfettered access to the Committee; and
- 9.6.4 review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation.

## **9.7 Compliance, whistleblowing and fraud**

The Committee shall:

- 9.7.1 review the adequacy and security of the Company's arrangements for the workforce to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 9.7.2 review the Company's procedures for detecting fraud; and
- 9.7.3 review the Company's systems and controls for ethical behavior and the prevention of bribery and receive reports on non-compliance.

## **9.8 Internal Audit**

The Committee shall:

- 9.8.1 approve the appointment or termination of appointment of the head of internal audit;
- 9.8.2 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the charter of the internal audit function ensuring it is appropriate for the current needs of the organisation;
- 9.8.3 review and approve the annual internal audit work plan (ensuring that it is aligned to the key risks of the business), receive regular reports on work carried out, and be advised of the reasons for any change or delay in the plan;
- 9.8.4 ensure internal audit has the necessary resources and access to information to enable it to fulfill its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 9.8.5 ensure the internal auditor has direct access to the chair of the Board and to the Committee Chair, providing independence from the executive and accountability to the Committee;
- 9.8.6 periodically carry out an assessment of the effectiveness of the internal audit function, and as part of this assessment:
  - 9.8.6.1 meet with the head of internal audit at least once a year without the presence of management to discuss the effectiveness of the function and any issues arising from internal audits carried out;

- 9.8.6.2 review and assess the internal audit work plan;
- 9.8.6.3 receive a report on the results of the internal audit function's work;
- 9.8.6.4 determine whether it is satisfied that the quality, experience, and expertise of internal audit is appropriate for the business; and
- 9.8.6.5 review the responsiveness of, and actions taken by, management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 9.8.7 monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor; and
- 9.8.8 consider whether an independent, third party review of processes is appropriate.

## **9.9 External Audit**

The Committee shall:

- 9.9.1 consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, reappointment and removal of the Company's external auditor;
- 9.9.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender develop and oversee the competitive tender process and ensure that all tendering firms have access as is necessary to information and individuals during the duration of the tendering process;
- 9.9.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 9.9.4 oversee the relationship with the external auditor including (but not limited to):
  - 9.9.4.1 approving their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted; and
  - 9.9.4.2 approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year;
  - 9.9.4.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
  - 9.9.4.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company outside the ordinary course of business which could adversely affect the auditor's independence and objectivity, or the audit process, and seek information from the external auditor about their policies and processes for maintaining independence and monitoring compliance;

- 9.9.4.5 agreeing with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard, then monitoring the implementation of this policy. Authority is delegated to the Committee Chair to approve any applicable hiring of a former external auditor employee, as detailed in that policy;
- 9.9.4.6 monitoring the external auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of the lead audit partner and staff;
- 9.9.4.7 monitoring the level of fees paid by the Company to the external auditor compared to the overall fee income of the firm, office and partner and assessing these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;
- 9.9.4.8 assessing annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- 9.9.4.9 seeking to ensure coordination of the external audit with the activities of the internal audit function; and
- 9.9.4.10 evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- 9.9.14 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 9.9.15 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 9.9.16 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 9.9.16.1 a discussion of any major issues which arose during the audit;
  - 9.9.16.2 the auditor's explanation of how the risks to audit quality were addressed;
  - 9.9.16.3 key accounting and audit judgements;
  - 9.9.16.4 the auditor's view of their interactions with senior management; and
  - 9.9.16.5 levels of errors identified during the audit;
- 9.9.17 review any representation letter(s) requested by the external auditor before they are signed by management and consider whether based on its knowledge, the information provided is complete and appropriate;
- 9.9.18 review prior to its consideration by the Board, the external auditor's report to the directors and the management letter and management's response to the auditor's findings and recommendations;
- 9.6.19 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee; and

- 9.9.20 develop, implement and monitor a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant Ethical Guidance, and monitoring adherence to the non-audit services fee cap and prohibited non-audit services (as required by law). Authority is delegated to the Committee Chair to approve any relevant non-audit services as detailed in the non-audit services policy.

## **10. Reporting Responsibilities**

- 10.1 The Committee Chair shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also report to the Board on how it has discharged its responsibilities. This report shall include:
- 10.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 9.3.2) and how these were addressed;
  - 10.1.2 its assessment of the effectiveness of the external audit process (required under paragraph (9.9.4.8), and its recommendation on the appointment or reappointment of the external auditor; and
  - 10.1.3 any other issues on which the Board has requested the Committee's opinion. In doing so, it should identify any matters in respect of which it considers that action or improvement is needed (whether the subject of a specific request of the Board or not) and make recommendations as to the steps to be taken. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.2 The Committee shall compile a report on its activities to be included in the Company's annual report. The report should include, *inter alia*, an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the external auditor; and all other information requirements set out in the UK Corporate Governance Code.
- 10.3 In compiling the reports referred to in 10.1 and 10.2, the Committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the inputs to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **11 Other Matters**

The Committee shall:

- 11.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 11.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 11.3 give due consideration to relevant laws and regulations, the latest Guidance on Audit Committees issued by the Financial Reporting Council, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus, Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 11.4 be responsible for coordination of the internal and external auditors;

- 11.5 oversee any investigation of activities which are within its terms of reference;
- 11.6 work and liaise as necessary with all other board committees; and
- 11.7 arrange for periodic reviews of its own performance and regularly review its constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the Board for approval.

## **12. Authority**

The Committee is authorised to:

- 12.1 carry out all duties set out in these terms of reference, to have unrestricted access to the Company's documents and information and to obtain, at the Company's expense, appropriate professional advice on any matters within its terms of reference as it considers necessary;
- 12.2 seek any information it requires from any employee of the Company in order to perform its duties;
- 12.3 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 12.3 call any employee to be questioned at a meeting of the Committee as and when required;
- 12.4 collectively and individually have direct access to the Chief Financial Officer, the head of internal audit and the Company's external auditors; and
- 12.5 have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.