



## **AUDIT AND RISK COMMITTEE CHARTER**

## **1. PURPOSE OF THE COMMITTEE CHARTER**

- 1.1 This Audit and Risk Committee Charter (the Committee Charter sets out the role, composition and responsibilities of the Audit and Risk Committee (the Committee) of the Board of Directors (the Board) of Capital Limited (the Company) within the governance structure of the Company and its subsidiaries (the Group).
- 1.2 The conduct of the Committee is also governed by the Company's Code of Conduct Policy (contained in the Board Committee Charter) and Bye-Laws of the Company (the Constitution).
- 1.3 The Committee's primary functions as set out in this Committee Charter are to:
  - A) monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, by reviewing significant financial reporting judgments contained in them; and,
  - B) assists the Board in discharging its responsibility to exercise due care, diligence and skill in the areas of:
    - i) application of accounting policy and reporting of financial information to all stakeholders, including but not limited to, shareholders, regulators, media and the general public;
    - ii) business risk management and internal control systems, including business policies and practices;
    - iii) corporate conduct and business ethics, including auditor independence and ongoing compliance with laws and regulations; and,
    - iv) monitoring and reviewing the effectiveness of the Company's internal audit function.
- 1.4 The ultimate responsibility for the integrity of the Company's financial reporting and internal control rests with the full Board.
- 1.5 The Committee Charter has been updated to take account of the UK Corporate Governance Code (the Code) published in July 2018 and the Guidance on Board Effectiveness issued by the Financial Reporting Council. This Committee Charter was adopted by the Board on 28 November 2018.

## **2. MEMBERSHIP, TERM AND COMMITMENT**

- 2.1 The members of the Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Company and shall consist of not fewer than three members, a majority of whom must be Independent Non-Executive Directors as per the definition of independence contained within the Company's Directors Test of Independence Policy.
- 2.2 A quorum shall be two members.
- 2.3 Where possible, the Chairman of the Committee shall be an Independent Non-Executive Director appointed by the Board.

- 2.4 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee.
- 2.5 The duties and responsibilities of a member of the Committee shall be in addition to those duties set out for a Director of the Board.
- 2.6 Appointments to the Committee shall be for a period of three years or such lesser approved by the Board, with Committee members generally being eligible for re-appointment for so long as they remain eligible under section 2.1 above. The effect of ceasing to be a Director of the Board is the automatic termination of appointment as a member of the Committee.
- 2.7 In accordance with the Code, at least one member of the Committee shall have recent and relevant financial experience, ideally with a professional qualification from a professional accountancy body.
- 2.8 Matters arising for determination at Committee meetings shall be decided by a majority of votes of Members present and voting, and any such decision shall for all purposes be deemed a decision of the Committee.
- 2.9 In the case of equality votes, the Chairman of the Meeting, in addition to his deliberative vote, has a casting vote.

### **3. SECRETARY AND MINUTES**

- 3.1 The Company Secretary shall be the Secretary of the Committee and the minutes of meetings of the Committee shall be made available to all members of the Board, unless in the opinion of the Committee Chairman it would be inappropriate to do so. The Company Secretary shall ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.
- 3.2 For the avoidance of doubt, the Company Secretary shall not be entitled to vote or be counted in the quorum in respect of any resolution of the Committee.

### **4. ATTENDANCE AND FREQUENCY OF MEETINGS**

- 4.1 Meetings of the Committee shall be called by the Company Secretary, at the request of the Committee Chairman. In addition, the Chairman shall call a meeting of the Committee if so requested by any Member of the Committee, by the external Auditors or by the Chairman of the Board.
- 4.2 The Secretary shall prepare an agenda for each meeting, to be agreed by the Chairman of the Committee and ensure the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.
- 4.3 Unless otherwise agreed, notice of the meeting will be sent to all members of the Committee no later than five working days before the date of the meeting.
- 4.4 Meetings shall be held when required, but in any event shall be held not less than three times per calendar year. Scheduled meetings are to be structured around financial reporting and the audit cycle and otherwise as required.

- 4.5 The Committee shall maintain written minutes or other records of its meetings and activities. Minutes of each meeting of the Committee shall be distributed to each member of the Committee. The Secretary of the Company shall retain the original signed minutes for filing with the corporate records of the Company.
- 4.6 The Chairman of the Committee shall report to the Board following meetings of the Committee, and as otherwise requested by the Chairman of the Board. The report should include but not limited to:
- A) information about the audit process including the results and effectiveness of internal and external audits and its recommendation on the appointment or reappointment of the external auditor;
  - B) any determination by the Committee relating to the independence of the external auditor; and,
  - C) any other matters that in the opinion of the Committee should be brought to the attention of the Board, and any recommendations requiring Board approval and/or action.
- 4.7 Only members of the Committee have the right to attend the Committee meetings. Other Company Directors (in particular the CFO), senior management and/or employees of the Company may be invited to attend any meeting (or part thereof) at the Committee Chairman's discretion.
- 4.8 Parties external to the Company may be invited to attend any meeting of the Committee at the Committee Chairman's discretion and the external audit engagement partner/client manager may be invited to attend any meeting or part of any meeting of the Committee.
- 4.9 The Committee should meet the Company's external Auditors (without management) at least annually to discuss matters relating to its remit and any issues arising from the external audit.
- 4.10 No Director is entitled to attend that part of a meeting at which an act or omission of that Director or a contract, arrangement or undertaking involving or potentially involving that Director or a related party of that Director is being investigated or discussed.
- 4.11 Notwithstanding the above, if in the opinion of the Committee, their investigation or discussion will be assisted by hearing from the interested Director, the Committee may invite that Director to address the Committee. The Committee shall give fair consideration to that address. The Director will not, however, be invited to take part in the deliberations following that address.

## **5. CHAIRMAN**

- 5.1 The Chairman of the Committee is selected by the Board and shall:
- A) maintain dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer and the external audit partner; and,

- B) attend the Annual General Meeting to answer shareholder questions on the Committees activities, where possible.

## **6. AUTHORITY AND RESOURCES**

- 6.1 The Committee is authorised by the Board to investigate any matter within its terms of reference and to make recommendations to the Board on any such matter. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any reasonable requests made by the Committee.
- 6.2 The Committee is authorised by the Board to obtain, at the Company's expense, outside professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary. It is envisaged that in obtaining outside advice the Committee will act in conjunction with the Chairman and/or Chief Executive Officer of the Company.
- 6.3 The Committee has direct access to the Company's external auditors and has the authority to seek any information it requires to carry out its duties.
- 6.4 The Committee shall have access to sufficient resources in order to carry out its duties, including legal, accounting or other professional advice on any matters within its terms of reference, including the assistance of the Company Secretary to fulfil its duties.
- 6.5 The Committee shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.

## **7. DUTIES**

The duties of the Committee include:

### **7.1 Financial reporting**

- A) The Committee shall monitor the integrity of the financial statements of the company, including its annual, half-yearly and quarterly reports and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.

In particular, the Committee shall review and challenge where necessary:

- i) the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Group;
- ii) the methods used to account for significant or unusual transactions where different approaches are possible;
- iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

- iv) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and,
- v) all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management.

Where the committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

## **7.2 Narrative reporting**

- A) Where requested by the Board, the Committee shall 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.

## **7.3 Risk Management and Internal Control Structure**

- A) The Committee shall:
  - i) keep under review the adequacy and effectiveness of the company's internal financial controls and internal control and risk management systems; and,
  - ii) review and approve the statements to be included in the annual report concerning internal controls and risk management.

## **7.4 Internal Audit**

- A) Where an internal auditor has been appointed, the Committee shall:
  - i) approve the appointment or termination of appointment of the internal auditor;
  - ii) review and approve the scope of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
  - iii) ensure the internal auditor has direct access to the Chairman of the Board and to the Committee chairman, and is accountable to the Committee;
  - iv) review and assess the annual internal audit work plan;
  - v) receive a report on the results of the internal auditor's work on a periodic basis;
  - vi) review and monitor management's responsiveness to the internal auditor's findings and recommendations;
  - vii) meet with the internal auditor at least once a year without the presence of management; and,
  - viii) monitor and review the effectiveness of the company's internal audit function, in the context of the company's overall risk management system.

- B) Where an internal auditor has not been appointed, the Committee should consider, at least annually, whether there is a need for an internal audit function and make a recommendation to the board. The reasons for the absence of such a function should be explained in the relevant section of the annual report.

## **7.5 External Audit**

A) The committee shall:

- i) consider and make recommendations to the board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- ii) if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- iii) oversee the relationship with the external auditor including (but not limited to):
  - a) recommendations on 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;
  - b) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - c) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - e) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related monitoring requirements;
  - f) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
  - g) seeking to ensure co-ordination with the activities of the internal audit function;
  - h) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation;
  - i) 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,

without management being present, to discuss the auditor's remit and any issues arising from the audit;

- j) review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team; and,

k) review the findings of the audit with the external auditor.

B) The committee shall also:

- i) review any representation letter(s) requested by the external auditor before they are signed by management;
- ii) review the management letter and management's response to the auditor's findings and recommendations; and
- iii) develop and implement 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 on the matter.

## **7.6 Compliance and Fraud and Bribery prevention**

A) The Committee shall:

- i) ensure compliance with laws, regulations and other requirements relating to external reporting by the Company of financial and non-financial information, taking account of the external auditor. These include, but are not limited to the applicable generally accepted accounting principles, the Bermudan Companies Act, 1981, as amended and the Listing, Prospectus and Disclosure and Transparency Rules set out by the Financial Conduct Authority in respect to the Company's listing on the London Stock Exchange;
- ii) review the adequacy and security of the company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, ensuring arrangements allow proportionate and independent investigation of such matters and appropriate follow up action; and,
- iii) review the Company's procedures for detecting fraud, reviewing the Company's systems and controls for the prevention of fraud and receive reports on non-compliance with fraud and any non-compliance with the Company's Anti -Bribery and Corruption Policy.

## **8. RISK EVALUATION**

8.1 Although ultimate responsibility for risk oversight and risk management rests with the full Board, the responsibility of the Committee in the area of risk management and internal control is to monitor the risk management and internal control structure implemented by management and advise on significant changes to that structure so as to obtain reasonable assurance that the Company's assets are safeguarded and that reliable financial records are maintained.

8.2 The Committee shall:

- A) advise the Board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments such as those published by relevant industry and regulatory authorities including the Financial Conduct Authority and other authoritative sources that may be relevant for the company's risk policies;
- B) oversee and advise the Board on the current risk exposures of the Company and future risk strategy;
- C) in relation to risk assessment:
  - i) keep under review the company's overall risk assessment processes that inform the Board's decision making;
  - ii) set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance; and,
  - iii) review the company's capability to identify and manage new risk types.
- D) advise the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the company, and taking independent external advice where appropriate;
- E) review reports on any material breaches of risk limits and the adequacy of proposed action;
- F) keep under review the effectiveness of the Company's internal financial controls and internal controls and risk management systems and review and approve the statements to be included in the annual report concerning internal controls and risk management;
- G) consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate independence and is free from management and other restrictions;
- H) make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed; and,
- I) produce a report of its activities and the company's risk management and strategy to be included in the company's annual report and contribute to the directors' report in the annual report and accounts which sets out the risk management objectives and policies.

## **9. REPORTING**

- 9.1 The Committee Chairman shall report to the Board on its proceedings following each meeting, making whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

- 9.2 The Company's auditors must report directly to the Committee.
- 9.3 In addition, the Chairman of the Committee shall compile a report for inclusion in the Company's Annual Report which shall include, where applicable;
- A) an explanation of how the Committee has addressed the effectiveness of the external audit process;
  - B) the significant issues that the Committee considers in relation to the financial statements and how these were addressed;
  - C) a description of the work of the Committee in discharging the Committee's duties and responsibilities; and,
  - D) any other information requirements set out in the Code.
- 9.4 In compiling the reports the Committee shall exercise judgement in deciding which of the issues it considers significant in relation to the financial statements, including those matters to allow the Board to assess whether the Company is a going concern.

## **10. EVALUATION**

- 10.1 The Committee will arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **11. REVIEW OF COMMITTEE CHARTER**

- 11.1 The Board will review this Committee Charter annually to ensure it remains consistent with the Board's objectives and responsibilities.

## **12. AMENDMENT OF THIS COMMITTEE CHARTER**

- 12.1 This Committee Charter has been adopted by the Board. Any amendment to this Committee Charter can only be approved by the Board.
- 12.2 The Company Secretary in conjunction with the General Counsel is responsible for reviewing this Committee Charter on an annual basis to ensure its continued compliance with legal and corporate governance requirements applicable to companies listed on any stock exchange on which the Company is listed and, if necessary, suggesting amendments to the Committee Charter for consideration by the Board.

### **13. PUBLICATION OF THE COMMITTEE CHARTER**

- 13.1 Key features of this Committee Charter are to be outlined in the Annual Report.
- 13.2 A copy of this Committee Charter is to be made available on the Company's website ([www.capdrill.com](http://www.capdrill.com)).
- 13.3 This Committee Charter will be made available to the Company's shareholders upon request.