

Board Committee reports

Finance Committee report



Members of the 2014 Finance Committee

	Attendance
Dr. Charles Okeahalam*, Chairman	7/7
Michael Alexander*, Member	7/7
Lord Mark Malloch-Brown*, Member	6/7
Ifueko Omoigui Okauru*, Member	5/7

* Independent Non-Executive Director.

Dates of 2014 Finance Committee meetings:

- 28 January 2014
- 19 February 2014
- 11 March 2014
- 20 May 2014
- 22 July 2014
- 21 October 2014
- 8 December 2014

Attendance for each meeting can be seen in the table above.

I am pleased to make this first report to Seplat shareholders of the activities of the Finance Committee, which I trust you will find to be of interest.

The Finance Committee was constituted in 2013 in compliance with the UK Code's requirement for an audit committee, and consists wholly of Independent Non-Executive Directors as listed in this report. You will see below details of the terms of reference for the Finance Committee and a summary of the activities carried out during the year. I shall be available at the AGM of the Company to be held on 2 June 2015 in Lagos, Nigeria to talk with shareholders, or if you are not able to meet me there, I can be contacted via the Company Secretary.

Dr. Charles Okeahalam*
Chairman of the Finance Committee

* Independent Non-Executive Director

The Finance Committee consists of four members, all of whom are Independent Non-Executive Directors. The Finance Committee meets at least four times a year, and the meetings are attended by appropriate senior management of the Company, including the Chief Financial Officer and the Head of Internal Audit and Internal Controls.

The Finance Committee assists the Board in:

- monitoring the integrity of the financial statements of the Company and any formal announcements relating to its financial performance, reviewing any significant financial reporting judgements contained in them;
- reviewing the Company's internal financial controls and financial risk management systems;
- overseeing financial strategy, policy and treasury matters;
- reviewing and approving major capital expenditures;
- making recommendations to the Board for presentation to the shareholders for approval at the AGM in relation to the appointment, re-appointment and removal of the external auditor; and approving the remuneration and terms of engagement of the external auditor;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
- monitoring and reviewing the effectiveness of the Company's internal audit function and its activities;
- providing advice on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy; and

- overseeing and evaluating the Company's corporate governance policies, conflicts of interest and related-party transactions and compliance, including whistleblowing policy arrangements and the independent investigation of such matters and follow-up action.

The Committee's activities during 2014

The Committee met seven times during 2014. In compliance with the Committee's terms of reference, it considered the following:

- Financial Statements – the Committee reviewed the report from the external auditors and management on the interim and annual financial statements and public releases. In doing so, it reviewed:
 - the oil and gas reserve estimates;
 - revenue recognition;
 - areas that require significant estimation, judgement or uncertainty;
 - compliance with financial reporting and governance standards;
 - the basis for the going concern assessment;
 - related party transactions and fraud and management override.
- Dividend Policy – a paper was considered on the most appropriate dividend policy to be implemented based on the nature of the business and by reference to various peers;
- Initial Public Offering – the Committee reviewed the various disclosures relating to the IPO to ensure that the disclosure in the IPO Prospectus was appropriate;
- An appropriate oil hedging strategy for the business to ensure that appropriate levels of revenue protection was considered at the same time as ensuring that the risk and costs of hedging were manageable;
- Internal audit – a review of the work done by internal audit and how the results of the findings were remediated by management in terms of extent and timing of tightening of controls. The Committee also interviewed and appointed the new head of internal audit and reviewed the formation of the internal audit team;
- Review of business risks – the Committee reviewed the business risks including the management and mitigation of risks and the timeline for remediation;
- Corporate Governance Compliance – the Committee reviewed the corporate governance framework including the implementation and effectiveness of the Company's anti-bribery and corruption policies and procedures. The Committee also reviewed the impact and attendance at training sessions and constantly monitored the findings of the whistle blowing procedure;
- Funding Strategy – the Committee considered a paper by management on the near-term and longer-term funding strategy for the Company including the appropriate mix of capital to finance the planned expansion of the business through organic reserve growth to growth by acquisitions;
- Budgets – the Committee reviewed the annual budget and the five year plan in detail to ensure the assumptions were consistent with the business environment and appropriate growth targets. Oil price sensitivities, cost reductions and impact of new acquisitions were considered as a part of the process;

The significant issues considered by the Committee in relation to the financial statements were:

- Revenue Recognition – the Committee considered the uplift in revenues in 2013 as a result of the payment received for recovered volumes from prior period lost production and ensured the disclosure identified this as a one off item;
- Taxation – the Committee considered the award during the year of Pioneer Tax awarded by the Nigerian Investment Promotional Counsel (NIPC) and acknowledged by Federal Inland Revenue Service (FIRS). The review included an investigation of the conditions for the award as well as its accounting treatment. The Committee was satisfied with the treatment and judgements supported by advice from senior management and external advisors and independent legal counsel. The Committee concluded that it would continue to review the conditions for the award to ensure onward compliance;
- Related Party Transactions – the Committee undertook a thorough review as to the number and extent of related party transactions. It was decided that the Committee would continue to monitor these closely with a goal of reducing the number and value of related party transactions through introduction of other service providers;
- Impairment – the Committee reviewed the impairment tests performed by management which was also an area of focus for the external auditor. In assessing the impact of impairment, oil price assumptions were compared with a number of external reference points and compared to ensure that the management estimates were appropriate.

Board Committee reports continued

Internal Audit

During 2014, the Finance Committee on behalf of the Board together with management reviewed the internal audit charter and formed the internal audit department which had previously been outsourced to PwC. PwC continues to assist the team in delivering the internal audit plan under a co-sourcing arrangement with a gradual phasing out strategy to a full internal unit.

The head of Internal Audit reports directly to the Board through the Chairman of the Finance Committee with an administrative reporting line to the CFO. The internal audit function therefore has direct access and responsibility to the Finance Committee and its main responsibilities include:

- Evaluating the adequacy, reliability and effectiveness of governance, risk management and internal controls systems;
- Setting the internal audit strategy and plan and delivering assurance and compliance monitoring;
- Evaluating the integrity of information and the means to identify and report on such information;
- Evaluating the means of safeguarding assets and verifying existence of such assets, as appropriate;
- Performing consulting and advisory services on new initiatives as appropriate for the organisation;
- Assisting business integrity in monitoring and evaluating areas of the business susceptible to fraud.

In 2014, internal audit focused on risk areas in performing both process audits and detailed testing of transactions related to contracting and procurement procedures, financial accounting processes, legal and regulatory compliance and embedding of corporate governance. The results of the internal audit findings were considered by the Committee at the majority of the meetings and the remedial plan was discussed with management. Control findings led to further testing on contract performance and corporate services to address specific control gaps and assertions.

External Audit

The objectiveness and independence of the external auditor are taken seriously by the Company and this is reviewed each year prior to commencement of the audit process. The Committee has a policy of ensuring that the external auditor's independence is maintained by minimising the provision of non-audit services. This is monitored closely throughout the year and the non-audit services are generally limited to services related to the audit such as review of the quarterly financial statements which the Company is required to publish. During 2014, the main non-audit services were related to work done in connection with the Initial Public Offering and review of Quarterly Financial Statements.

An analysis of the fees earned by the external auditors for the audit and non-audit services can be found in note 6 to the financial statements.

Prior to commencement of the audit, the Finance Committee meets with the external auditor to review the audit plan and reports. The external auditor presents its plan. This is to ensure that Committee has a thorough understanding of the higher risk areas designed to ensure there are no material misstatements in the financial statements.

The Committee has reviewed the external auditor's performance and independence taking into account input from management as well as having met with them at every Finance Committee meeting during 2014, including interaction with the external auditor without management present. In making its assessment, the Committee focused on the robustness of the audit, the extent of investigation into the business and the quality and objectiveness of the audit team. Based on this information, the Committee concluded that the audit process is operating effectively and has thus recommended to the Board that the current auditors, Ernst & Young ("E&Y"), be reappointed as external auditors. E&Y was first appointed on 20 December 2010. The Company complies with the Code of Corporate Governance for Public Companies in Nigeria and the UK Corporate Governance Code and generally adopts the most stringent conditions under both codes. This results in the audit partner being rotated every five years and the audit being put out to tender at least every ten years.