BP p.l.c.

Terms of reference

Audit committee

These terms of reference should be read in conjunction with the terms of reference applicable to all committees of the board of BP p.l.c.

Purpose

Monitoring and reviewing the effectiveness of bp's financial reporting, the integrity of bp's external and internal audit processes and the effectiveness of the system of internal control, being bp's risk[1] management and internal control framework.

Membership

A minimum of three non-executive directors (who are independent under Rule 10A-3 under the U.S. Securities Exchange Act of 1934, as amended).

At least one member shall have recent and relevant financial experience. At least one member must have competence in accounting and/or audit and be considered a financial expert (as defined by the U.S. Securities and Exchange Commission), as determined by the board upon the recommendation of the nomination and governance committee.

The chair of the board shall not be a member. The committee as a whole shall have competence relevant to the sector in which bp operates, as determined by the board upon the recommendation of the nomination and governance committee.

Quorum

Two members.

Chair

As appointed by the board.

Meetings

At least four times a year.

Attendance by invitation.

[1] "Risk", in these Terms of Reference, includes climate-related risks and opportunities, which are to respond to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and other such disclosure frameworks where applicable.

Responsibilities

The agenda will be set by the chair in consultation with the chief executive officer and with the support of the company secretary. The chair will engage with the directors in order to determine the key items for the board's consideration for the coming financial year.

Financial disclosure

1. Monitor and critically assess bp's financial statements and financial information, including its annual report and Form 20-F, quarterly results announcements, and any other formal announcements relating to bp's financial performance and non-financial performance and earnings guidance where appropriate, or consistent with the committee's purpose. It will focus on:
    - the integrity of bp's financial reporting and related processes
    - the context in which the statements are made, seeking to satisfy itself that the disclosures are clear, appropriate, complete and not misleading
    - compliance with relevant legal and regulatory requirements and financial reporting standards
    - the going concern assumption and the viability statement as to bp's ability to continue to operate and meet its liabilities, taking account of its current position and principal risks.
2. Review and challenge, where necessary, methods used to account for significant or unusual transactions, the application and appropriateness of significant accounting policies, and financial reporting estimates and judgements in bp's financial statements or announcements, as referred to above, taking into account the external auditor's views on the financial statements.
3. Review all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to audit and to risk management.
4. Meet with management and the external auditor to review and discuss the annual audit and the content of the annual report and accounts. Evaluate the risks to the quality and effectiveness of the financial reporting process considering the external auditor's communications with the committee.
5. Where requested by the board, advise on whether, taken as a whole, the annual report and accounts are fair, balanced and understandable and provide the information necessary for shareholders to assess bp's performance, business model and strategy and inform the board's statement on these matters.

6. In relation to dividend proposals, review and consider whether sufficient distributable reserves would be available when a dividend is proposed to be paid and whether sufficient resources would remain to continue to meet bp's needs.

Risks and reports

7. Monitor principal and emerging risks allocated to the committee by the board.
8. Review and understand mitigation proposed by management in respect of any risks associated with the bp internal financial controls and financial reporting responsibilities. The committee's responsibilities in this regard shall extend to monitoring any principal, emerging and other risks and/or material controls as it may determine fall within its scope, or as otherwise allocated by the board from time to time, consistent with its purpose.
9. Review reports on the effectiveness of bp's overall system of internal control, and risk management.

Internal controls and risk management systems

10. Oversee the policies and procedures for the control, monitoring and mitigation of financial and non-financial risks across bp, including monitoring how effectively management is embedding and maintaining the system of internal control and risk management culture.
11. Monitor the effectiveness of bp's systems of internal financial control designed to identify, assess, manage and review financial risks, and other internal control and risk management systems within the committee's remit. This monitoring shall include but not be limited to reviewing reports from management, the quarterly reports from internal audit, and any matters relevant to the committee's regular assessment of material controls.
12. Consider any findings and necessary disclosures relating to the system of internal control including any significant deficiencies or a significant failing or material weaknesses reported to the committee by management, the internal audit function or the external auditors, management's response and the conclusions of any testing or audits carried out by the internal audit function or external auditors.
13. Review and recommend to the board the committee's review and conclusions on the effectiveness of material controls as at the balance sheet date, drawing on assurance and input from management, internal audit and, where relevant, from the external auditors or other independent assurance providers. This review shall include consideration of any material controls that have not operated effectively and the status of associated remediation.
14. Review bp's procedures for detecting fraud and independently assess the management of fraud risk across the group.

15. Oversee bp's policies and procedures for (i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or audit matters and (ii) the confidential, anonymous submission by employees of bp of concerns regarding questionable accounting or audit matters and (iii) bp's compliance with applicable legal and regulatory requirements in relation to the committee's remit.
16. Review the reporting of longer-term viability and the system of internal control, including the reporting of principal and emerging risks across bp where appropriate.
17. Review bp's modelling for stress testing different financial and operational events and evaluate whether the period covered by the viability statement is appropriate.

Internal audit

18. Approve the appointment or termination of appointment of the chief internal auditor. The remuneration of the chief internal auditor is to be reviewed by the committee chair and recommended to the remuneration committee for approval.
19. Review and approve the role and charter of the internal audit function. Monitor and review the effectiveness of its work, and annually review the internal audit charter to check it is appropriate for the current needs of bp and aligned to key risks.
20. Monitor that internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, check there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and monitor that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors.
21. Ensure that the primary reporting line for the chief internal auditor is the chair of the committee with the secondary reporting line being management.
22. Monitor that the chief internal auditor has direct access to the chair of the board and to the committee chair, providing independence from management and accountability to the committee.
23. Carry out an annual assessment of the effectiveness of the internal audit function, including:
    - meeting with the chief internal auditor, without the presence of management, to discuss the effectiveness of the function
    - considering, assessing and approving the annual internal audit work plan
    - receiving a report on the results of the internal audit function's work
    - determining whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business

- reviewing the actions taken by management to implement the recommendations of internal audit and to supporting the effective working of the internal audit function.

24. Monitor and assess the role and effectiveness of the internal audit function in the overall context of the system of internal control and the work of compliance, finance and the external auditor.
25. Set the objectives of the chief internal auditor and appraise performance annually. Where the tenure of the chief internal auditor exceeds seven years, the committee will discuss annually the committee chair's assessment of the chief internal auditor's independence and objectivity.
26. Disclose whether it is satisfied that the internal audit function has appropriate resources in the annual report.
27. Obtain an independent and objective external quality assessment of the internal audit function as a whole at appropriate intervals and at least every five years. Oversee and approve the appointment process for the independent assessor.

External audit

28. In accordance with legal and professional requirements, consider and make recommendations to the board, to be put to shareholders, on the appointment, re-appointment and removal of the external auditor.
29. Conduct the tender process for the selection and make recommendations to the board about the appointment of the external auditor in accordance with applicable legal and regulatory requirements, monitoring that all tendering firms have such access as is necessary to information and individuals during the tendering process.
30. If an external auditor resigns, investigate the issues leading to this and decide whether any action is required.
31. Oversee the relationship with the external auditor. In this context the committee shall:
    - approve the external auditor's remuneration, including both fees for audit and non-audit services, and monitor that the level of fees is appropriate to enable an effective and high-quality audit to be conducted
    - approve the external auditor's terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
32. Develop and oversee the implementation of bp's policy on the provision of non-audit services by the external auditor, including prior approval of non-audit services by the committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.

33. Taking account of the policy on the provision of non-audit services, review and monitor the external auditor's independence and objectivity considering professional and regulatory requirements and bp's relationship with the external auditor as a whole including the provision of any non-audit services.
34. Agree a policy on the employment of current and former employees of the external auditor, considering applicable ethical standards and legal requirements, and monitor the application of this policy.
35. Monitor the external auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the FRC's defined ethical standard, including the guidance on the rotation of audit partner and staff.
36. Monitor the level of fees paid to the external auditor compared to the overall fee income of the firm and assess these in the context of relevant legal, professional and regulatory requirements, guidance and applicable ethical standards.
37. 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 with the external auditor without management being present, to discuss the external auditor's remit, any issues arising from the audit and any difficulties encountered during the course of the audit, including restrictions on activities or access to information and any significant disagreements with management.
38. Discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, checking it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team.
39. Review the findings of the audit with the external auditor including any major resolved or unresolved issues that arose during the audit and the level of errors identified.
40. Review any audit representation letter(s) requested by the external auditor before it is (they are) signed by management.
41. Review the insights report and management's response to the external auditor's findings and recommendations.
42. Assess annually the qualifications, expertise and resources of the external auditor.
43. Review the effectiveness of the external audit process, including an assessment of the quality of the external audit (which shall include a report from the external auditor on its own internal quality procedures), the handling of key judgements by the external auditor, the external auditor's response to questions from the committee and any audit problems or difficulties and management's response.
44. Review and discuss with the external auditor any significant issues arising from any regulatory inspections of the external auditor, to the extent relevant, including the external auditor's response to any identified accounting deficiencies.

Reporting

45. Report to the board on:
    - the significant issues that it considered in relation to the financial statements and how these issues were addressed
    - significant financial reporting issues and judgements made in connection with the preparation of the financial statements, (having regard to matters communicated to it by the external auditor) annual report and Form 20-F, quarterly reports and any other formal statements
    - its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor
    - the outcome of the external audit, the role of the committee in the process and how the external audit contributed to the integrity of the financial reporting
    - the committee's review and assessment of the effectiveness of material controls as at the balance sheet date to support the board's declaration of effectiveness.
    - any other issues on which the board has requested the committee's opinion.
46. Report formally to the board on its proceedings after each meeting.
47. Make whatever recommendations to the board it deems appropriate on any area within its remit including where action or improvement is needed.
48. Compile a report on its activities to be included in the annual report and Form 20-F.
49. In compiling the reports referred to in 44-47 above, the committee should include at least those matters that have informed its assessment of whether it is appropriate for bp to adopt the going concern basis of accounting and the effectiveness of the process to evaluate longer-term viability of bp. If the board has not accepted the committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the committee's recommendation and the reasons why the board has taken a different position.
50. The committee shall have the right to publish in the annual report details of any issues that cannot be resolved between the committee and the board.