

Audit Committee Report



Aman Mehta
Chairman, Audit Committee

This Report provides details of the role and responsibilities of the Audit Committee and the work it has undertaken during the year.

Membership and attendance

The Audit Committee comprises the following independent Non-Executive Directors and met on four occasions during the year.

	Number of meetings attended	Percentage attendance
Aman Mehta, Chairman	4/4	100%
Naresh Chandra	4/4	100%
Euan Macdonald	4/4	100%

As shown in Mr Mehta's biography on page 73, he has had extensive executive and non-executive experience with a strong financial background in large listed companies. The Board therefore considers that Mr Mehta has recent and relevant financial experience. All members of the Committee have had extensive prior senior management experience, either in large international organisations or government, and are financially literate.

The Audit Committee assists the Board in the discharge of its responsibility for maintaining and monitoring the integrity of the Group's financial statements, assessing the effectiveness of the Group's system of risk management and internal controls and the independence and objectivity of the external auditor.

In order to carry out its duties effectively, the Committee receives high quality and detailed information from management and the internal and external auditor regularly, which is reviewed, discussed and challenged by the Committee as required.

Responsibilities of the Audit Committee

The Audit Committee's remit falls into four main areas: financial reporting, risk and the internal control environment, and oversight of the external and internal audit processes. The main responsibilities of the Audit Committee are to:

- monitor the integrity of the financial statements, including its annual and half-year results;
- review the Group's internal controls and risk management systems and consider the effectiveness of these systems;
- make recommendations to the Board concerning the appointment of the external auditor;
- review the independence of the external auditor;
- review the scope of Internal Audit work;
- develop policy in relation to the provision of non-audit services by the external auditor;
- discuss with the external auditor the nature and scope of the audit;
- approve the remuneration of the external auditor;
- approve the formation of the Treasury Committee and review the minutes of its meetings;
- consider any matters arising in respect of the Relationship Agreement and related party transactions;
- monitor the activities and effectiveness of the internal audit function and consider its reports;
- review the Group's arrangements for its employees to raise concerns through its whistleblowing policy;
- monitor anti-bribery policies and procedures; and
- review reports from the audit committees of the Group's main subsidiary companies.

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The Group's main subsidiaries, a number of which are listed on stock exchanges in India, have their own audit committees in accordance with local corporate governance requirements. The Audit Committee receives confirmation from the subsidiaries that there are no material adverse issues that are likely to impact the Group. Furthermore, the internal audit function presents issues arising within the subsidiaries to the Audit Committee on a regular basis. The external auditor partner, India attends the Audit Committee meetings of both the main subsidiaries and the Group. The Chief Executive Officer and the Chief Financial Officer normally also attend meetings of the Audit Committee to report on issues and facilitate discussions with the external auditor and provide the Committee with insights on the quality of financial reporting and internal controls throughout the Group.

The full terms of reference for the Committee can be found on the Company's website at www.vedantaresources.com

and are also available on request from the Company Secretary.

Operation of the Audit Committee

The Committee meets at least four times a year based on appropriate times in the financial reporting calendar. The Executive Directors, Chief Financial Officer, Director of MAS and Information Technology, other members of the senior management team and the external auditor regularly attend meetings at the invitation of the Committee. The Committee meets at least twice during the year with representatives from the external auditor without management being present. The Chairman of the Audit Committee regularly reports to the Board on the Committee's activities. The Committee's agenda is based on its remit outlined below as appropriate to the stage in the reporting cycle. The external auditor attends meetings of the Audit Committee to ensure effective communication of matters relating to the audit.

Audit Committee activities during the year

The main areas covered by the Audit Committee during the year are summarised below.

Area of responsibility

Activities

Financial reporting

It is one of the Committee's key duties to monitor the integrity of the financial statements. As part of this process it reviews in detail the preliminary results statements, the Annual Report and Accounts and Half-Year Report. The appropriateness of accounting policies used is considered, accounting judgements are reviewed and the external audit findings discussed. Details of financial reporting procedures in place are given on page 84 of the Corporate Governance Report.

- > Review and approval of Preliminary Announcement, Annual Report and financial statements.
- > Six-monthly reviews of significant accounting issues such as impairment reviews and the integration of Cairn India within the Group.
- > Review and approval of the Half-Year Report.
- > Discussions on impairment reviews.
- > Six-monthly review of all pending tax issues.
- > Review of Audit Committee Report for the Annual Report and Accounts.
- > Six-monthly review of legal cases to ensure appropriate provisions are made and disclosed.
- > Review of the Going Concern basis for the preparation of the financial statements, including working capital forecasts, monthly projections and funding requirements.

Internal controls and risk management

Details of the Company's internal control and risk management processes are discussed on pages 84 to 85. The Audit Committee reviews these processes and output from the regular review of risks carried out during the year by the Internal Audit function.

- > Internal audit review including reviews of the internal control framework, changes to the control gradings within the Group and whistleblowing cases.
- > Review of the Group's risk management infrastructure, risk profile, significant risks, risk matrix and resulting action plans.
- > Review of the new regulatory changes to the UK Corporate Governance Code.

The audit and external auditor

- > Review of the significant audit risks.
- > Consideration of external audit findings.
- > Review of key audit issues and management's report.
- > Review of the materiality figure for the external audit.
- > Review of the independence of the external auditor and the provision for non-audit services.
- > Performance evaluation of the external auditor.
- > Consideration of the external audit fee.
- > Recommending the reappointment of the external auditor.
- > Review of the Management Representation Letter.
- > Review of the plans for the 2013 external audit of the financial statements.

Internal audit

- > Review of the performance of the Internal Audit function
- > Review of 2012–13 internal audit plan.

Whistleblowing procedure

The Group has in place a whistleblowing procedure that is regularly reviewed by the Audit Committee. This is a standalone policy which is summarised in the Code of Business Conduct and Ethics and supports the Group's aim of working to the highest ethical standards. The policy allows employees of the Company, its subsidiaries and all external stakeholders to raise any issues of concern in confidence and forms part of the Group's internal control monitoring process. The Audit Committee reviews any reports made under the whistleblowing policy and ensures appropriate actions are taken if required.

Fraud and Bribery Act

The Company is committed to the elimination of fraud, with each suspected case thoroughly investigated and concluded. The Audit Committee reviews the actions taken by management in the elimination of fraudulent practices and to promote ethical working practices.

External auditor

The Audit Committee is pivotal in monitoring the performance of the external auditor and the Group's relationship with the external auditor. Details of how this is achieved are set out below:

The Audit Plan

A detailed Audit Plan is prepared by the external auditor, Deloitte LLP, ('Deloitte') which is reviewed by the Audit Committee. The Audit Plan sets out the audit scope, key audit risks identified, materiality issues, the client team working on the audit and the audit timetable. The audit scope covers the significant components of the audit and audit plans for each component and geographical location. Each of the key audit risks and the external auditor's response on how it will investigate these risks is considered by the Committee.

Auditor independence

The Audit Committee is responsible for reviewing the external auditor's independence and assessing their continued effectiveness. The Audit Committee and the Board place great emphasis on the objectivity of the external auditor. The current external auditor, Deloitte LLP, has been the Company's auditor since its Listing in 2003. The rotation of the audit partner's responsibilities within Deloitte is required by their profession's ethical standards and there is also rotation of key members within the audit team. Deloitte are required to rotate the audit partner responsible for the Group's audit every five years and the last audit partner rotation was in 2010. The audit partner responsible for the audit of Indian subsidiaries was rotated in 2012.

A key part of ensuring the independence of the external auditor is to have in place robust policies concerning matters that may affect their independence. The Company has in place policies on:

- the independence and objectivity of the external auditor;
- employment of former employees of the external auditor; and
- appointment of the external auditor for non-audit services.

These policies are based on the APB Ethical Standards for Auditors and are regularly reviewed to ensure they are in line with best practice. These controls provide the Audit Committee with confidence that the independence of Deloitte in their audit function will be maintained. New requirements introduced by the Code expect companies to put their external audit contract out to tender at least once every 10 years. The Audit Committee, with the assistance of the Chief Financial Officer and the Company Secretary, will therefore consider plans for putting the external audit contract out to tender at the appropriate time in accordance with the guidelines published by the Financial Reporting Council.

Provision of non-audit services by the external auditor

The Group's policy on the provision of non-audit services by the external auditor specifies certain services which the external auditor is prohibited from undertaking in order to safeguard their objectivity and independence. This includes work relating to the financial statements that will ultimately be subject to audit and the provision of internal audit services. The policy also identifies those services which the external auditor is permitted to deliver to the Group. These include tax advisory services, and work on mergers, acquisitions and disposals. Of the permitted services, any assignment in excess of US\$100,000 may only be awarded to the external auditor with the prior approval of the Audit Committee.

All other permitted non-audit services and the fees paid to the external auditor for non-audit work are reported to the Audit Committee on a six-monthly basis. This report includes safeguards put into place to ensure that any threats to the independence of the external auditor are mitigated. The majority of non-audit services provided by the external auditor are tax advisory services, corporate finance matters or transaction-related work. A separate team within Deloitte LLP is used to carry out non-audit work and overseen by a separate partner. An analysis of non-audit fees can be found in Note 10 to the financial statements.

Performance and reappointment of the external auditor

The overall performance and effectiveness of the external auditor is reviewed annually taking into account the views of management. Feedback is provided on the evaluation to senior members of Deloitte who are unrelated to the audit. This activity also forms part of Deloitte's own system of quality control. The performance evaluation was carried out using a detailed questionnaire, the results of which were considered by the Audit Committee.

Having reviewed the independence and effectiveness of the external auditor and being fully satisfied with its performance during the year, the Audit Committee has recommended to the Board that the existing auditor, Deloitte, be reappointed as the Company's external auditor and an ordinary resolution to reappoint Deloitte will be proposed at the forthcoming Annual General Meeting. There are no contractual obligations that restrict the Audit Committee's choice of auditor.

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The year ahead

The coming year will be a year of change in the regulatory environment affecting audit committees. Requirements for the content and processes relating to Going Concern statements are expected to be amended following the Sharman enquiry. In addition, there will be new reporting requirements for audit committees introduced by the Code and regulatory changes to the way that auditors report. The Audit Committee will be evaluating these changes to ensure they are implemented within the requisite timescales.

In addition, the Audit Committee's objectives for the forthcoming year include:

- review of the Group framework in respect of new regulatory developments for implementation by the Group;
- review of changes to risk profile and supporting the Board debate on risk tolerance and appetite; and
- greater focus on risk management.

Performance evaluation of the Audit Committee

The Committee undertook an annual evaluation of its performance and effectiveness during the year in order to assess its strengths and weaknesses. The evaluation was carried out by means of a detailed questionnaire to all members of the Board. Following the evaluation process, it was concluded that the Audit Committee continued to carry out its role effectively.

Audit Committee Report

This Audit Committee Report was reviewed and approved by the Board on 15 May 2013.

Aman Mehta

Chairman, Audit Committee