

# Audit Committee Report

“ The Audit Committee has focused on the review of new reporting procedures implemented by the Group’s central finance function, in addition to restarting field work within the internal audit function.”



**Carol Chesney**  
Chair of the Audit  
Committee

## Introduction

With the Company reporting a profit from operations during 2022, following two years of losses, the work of the Audit Committee has focused on the review of new reporting procedures implemented by the Group’s central finance function, in addition to the restarting of field work within the internal audit function.

The Committee has been pleased with the introduction of a new inventory valuation model, which reflects the diverse product lines sold across the Group. In particular, the model allows for a consistent approach to the complex issues of balancing management judgement on future usage with inventory values, which reflect the future market outlook. Overall, the Committee is extremely satisfied with the performance of management and the conclusions of the external auditor, as noted in their report.

With the COVID-19 pandemic behind us, Hunting’s internal audit function returned to a more normal work programme, with a full plan completed in the year. The Company has added to the resourcing of the function in the year, which will broaden the coverage of the work programme going forward.

As part of the Committee’s half year and full year procedures, impairment reviews of the Group’s current and non-current assets were completed, which has resulted in a goodwill impairment charge being recorded within the Enpro Subsea business unit.

Further, the Committee has also reviewed the adjusting items proposed by management and, following discussion with the external auditor, approved of two items, in respect of the Enpro impairment and also exceptional legal fees incurred in the year.

Finally, the Committee noted the successful negotiation of the Asset Based Lending facility in February 2022. The facility has added support to Hunting’s Going Concern and Viability statements, as it has materially increased the Group’s long-term liquidity.

	Member	Invitation
<b>Number of meetings held</b>	4	
<b>Number of meetings attended (actual/possible):</b>		
Annell Bay	4/4	–
Carol Chesney (Committee Chair)	4/4	–
Bruce Ferguson	–	4/4
John (Jay) Glick	–	4/4
Paula Harris (from 20 April 2022)	2/2	1/1
Richard Hunting (to 20 April 2022)	–	2/2
Jim Johnson	–	4/4
Keith Lough	4/4	–

## Composition and Frequency of Meetings

The Committee currently comprises five independent non-executive Directors and is chaired by Carol Chesney. During the year, Paula Harris joined the Committee following her appointment by shareholders. Following his appointment to the Board on 3 January 2023, Stuart Brightman also joined the Committee. Mrs Chesney is a qualified Chartered Accountant and is considered to have recent and relevant financial experience. Ms Bay (Chair of the Remuneration Committee), Ms Harris and Messrs Brightman and Lough have experience of the global energy industry, with particular expertise in the UK and US oil and gas markets.

Further details of the Committee's experience can be found in the biographical summaries set out on pages 116, 117 and 125.

The Committee normally meets four times a year and operates under written terms of reference approved by the Board, which are published on the Company's website at [www.huntingplc.com](http://www.huntingplc.com).

In 2022, the Committee met four times in February, April, August and December, and the attendance record of Committee members and Board invitees during the year is noted in the table on page 155. All Directors and internal and external auditors are normally invited to attend meetings.

## Review of Committee Effectiveness

In December 2022, the Committee reviewed its effectiveness and the Committee Chair reported these findings to the Board. No issues were identified in this review process.

## Responsibilities

The principal responsibilities of the Audit Committee are to:

- monitor and review reports from the executive Directors, including the Group's financial statements and Stock Exchange announcements;
- provide the Board with a recommendation regarding the Half Year and Annual Report and Accounts, including whether they are fair, balanced and understandable;
- consider and approve any adjusting items proposed by management;
- review the Company's and Group's Going Concern and Viability statements;
- monitor, review and assess the Group's systems of risk management and internal control;
- review reports from the Group's external and internal auditors, including approving the proposed audit programmes, scope and resourcing;
- consider and recommend to the Board the appointment or reappointment of the external auditor as applicable;
- agree the scope and fees of the external audit;
- monitor and approve engagement of the external auditor for the provision of non-audit services to the Group;
- review the external auditor's independence and effectiveness of the audit process; and
- monitor corporate governance and accounting developments.

## Work Undertaken by the Committee During 2022

	Feb	Apr	Aug	Dec
<b>Financial Report</b>				
Annual Report and Full Year Results announcement	•			
Going Concern basis	•		•	
Viability Statement	•			
Half Year Report and Half Year Results announcement			•	
Review accounting policies				•
<b>Internal controls and risk management</b>				
Risk management and internal controls report	•		•	•
Key risks and mitigating controls				•
Effectiveness of internal controls and internal audit function				•
Internal audit report	•		•	•
Internal audit programme and resourcing				•
<b>External auditor</b>				
Auditor's objectives, independence and appointment			•	
Full Year and Half Year report to the Audit Committee	•		•	
Final Management letter on internal controls		•		
Auditor's performance and effectiveness	•			
Proposed year-end audit plan including scope, fees and engagement letter				•
Risk of auditor leaving the market				•
<b>Other business</b>				
Whistleblowing and Bribery Policy Review		•		
Committee effectiveness and terms of reference				•

As noted in the 2021 Annual Report and Accounts, the responsibility for reviewing the Company's anti-bribery and corruption, modern slavery and sanctions compliance was transferred to the Ethics and Sustainability Committee and forms part of the annual schedule of work of this new Committee.

## Review of the 2022 Financial Statements

The Committee reviews final drafts of the Group's Report and Accounts for both the half and full year. As part of this process, the performance of the Group's major operating segments is considered, with key judgements, estimates and accounting policies being approved by the Committee ahead of a recommendation to the Board. In addition to briefings and supporting reports from the central finance team on significant issues, the Committee engages in discussion with Deloitte, the Group's external auditor.

Significant matters reviewed by the Committee in connection with the 2022 Annual Report and Accounts were as follows:

### Inventory Valuation and Provisioning Procedures

A major area of review for the Committee for the 2022 half and full year results was the Group's inventory valuation and provisioning procedures. Following feedback received from the external auditor during the 2021 year-end audit process, the Group's central finance function further improved the processes and controls around inventory provisioning, with particular focus on ensuring these processes and controls were consistent throughout the Group's business units. The new methodology provides a consistent basis on which the gross and net inventory values for each major product line are assessed. The model provides flexibility to account for the different inventory turns and of different product lines as the Group navigates the varying equipment purchasing cycles of its customers, whether that be for onshore or offshore projects. The Audit Committee reviewed reports by both management and the external auditor on this process, discussing any variations to the output of inventory values and, in summary, were satisfied that there was good alignment between the external auditor and management regarding any assumptions made. The table below summarises the gross and net inventory held by the Group, with the movements to inventory provisions being highlighted.

	At 31 December 2021 \$m	Movement in year \$m	At 31 December 2022 \$m
Gross inventory	263.9	58.2	<b>322.1</b>
Provisions	(59.5)	9.5	<b>(50.0)</b>
Net inventory	204.4	67.7	<b>272.1</b>
Provisions as % of Gross inventory	23%		<b>16%</b>

The Committee reviewed the inventory sold in the year, written off or otherwise utilised through trading and was satisfied with the carrying values, as presented.

### Impairment Reviews

The Committee also received reports on the possible impairment of goodwill and other non-current assets held on the consolidated balance sheet. A review for impairment triggers was undertaken at the half year and a review of indefinite life assets was undertaken for the full year, resulting in a \$7.0m charge being recorded against the goodwill held for the Enpro Subsea cash generating unit. The Committee noted the business units where headroom for the carrying value of goodwill was more limited, with these units undertaking detailed modelling as part of the year-end audit process to support the values recorded. Management continues to utilise independent drilling and production projections published by Spears & Associates to support its analysis, with summaries presented in the Market Summary section of this report on pages 30 to 33.

### Property, Plant and Equipment ("PPE")

The year-end balance sheet includes \$256.7m (2021 – \$274.4m) for PPE. This represents approximately 30% of the Group's net assets (2021 – 31%). The movement in PPE reflects depreciation of \$26.6m, disposals of \$7.0m and other items totalling \$1.1m offset by additions of \$17.0m. The Committee reviewed the PPE impairment tests and, following discussion, was satisfied that the assumptions and the disclosures in the year-end accounts were appropriate.

### Inventories

At the year-end, the Group held \$272.1m (2021 – \$204.4m) of inventory. This represents approximately 32% of the Group's net assets (2021 – 23%). Inventory levels have started to increase again as activity levels and the Group's sales order book increase, and due to higher levels of critical stocks due to supply chain concerns. As noted above, more detailed valuation analysis of inventory was completed in the year as the new inventory provisioning methodology was introduced, with the Committee satisfied that a robust process is now in place, which encompasses all key product lines sold by the Group.

### Goodwill

The year-end balance sheet includes \$155.5m (2021 – \$164.1m) of goodwill. This represents approximately 18% of the Group's net assets (2021 – 19%), with Hunting Titan representing 74% of the year-end balance (2021 – 70%). As noted above, a \$7.0m impairment to goodwill held in respect of the Enpro Subsea cash generating unit was recorded in the year, which was primarily driven by changes to the discount rates applied to the impairment model. The Committee considered and challenged the discount rates and the factors used in the goodwill review process. After discussion, it was satisfied that the carrying values recorded and the disclosures in the year-end accounts were appropriate.

### Other Intangible Assets

The year-end balance sheet includes other intangible assets of \$35.7m (2021 – \$36.2m). This represents approximately 4% of the Group's net assets (2021 – 4%). The amortisation charge recorded in the consolidated income statement was \$4.4m (2021 – \$9.3m). The Committee considered and confirmed the appropriateness of the assumptions and factors used in the review process and were comfortable with the carrying values, as recorded.

### Right-of-use Assets

The year-end balance sheet includes right-of-use assets of \$26.0m (2021 – \$24.7m). This represents approximately 3% of the Group's net assets (2021 – 3%). The movement in the year is predominantly attributed to a lease in Wuxi, China being extended. This addition was offset by the leases that were exited in relation to the Singapore facility consolidation and the change in the headquarters in London. The Committee reviewed the movement in the carrying values of these items and confirmed the appropriateness of the assumptions and factors used in the review process and were comfortable with the items, as recorded.

### Revenue Recognition

Given the Group's improving results in 2022, revenue recognition received ongoing focus in the year, particularly given the complexity of certain sales contracts within the Subsea Spring business and in China in respect of the CNOOC contract, and following challenge from the external auditor, additional review procedures were introduced.

### Adjusting Items and Presentation of Financial Statements

The Group has reviewed the use of a "middle" column within its consolidated income statement and, in line with best practice, has presented the year-end consolidated income statement on a pure IFRS basis, without an "underlying" or "middle" column. The Committee noted the proposal by management to table for approval by the Audit Committee any material adjusting items to be presented in future.

At the 2022 year-end, the Group recorded two adjusting items totalling \$12.6m, which include \$5.6m in respect of exceptional legal costs and the \$7.0m goodwill impairment in respect of the Enpro Subsea business. The extraordinary legal costs incurred in the year, were due to a patent infringement challenge by a competitor, which Hunting has defended. The Committee agreed with management's proposal that the legal trial, which extended into H2 2022, supported the fees being exceptional given materially lower levels of legal fees incurred historically and, therefore, approved of the adjusting item.

In 2021, \$44.9m of adjustments to profit before tax were recorded.

The external auditor reviewed the revised presentation of the Group's financial statements and the adjusting items proposed, and approved of the presentation.

### Taxation

In view of the international spread of operations, the Committee monitors tax risk, tax audits and provisions held for taxation. In particular, the Committee noted that the Company had unrecognised deferred tax assets in respect to Hunting's US businesses. During the year-end process, management assessed the probability of Hunting being able to utilise these assets, concluding that more evidence of a market recovery in the US needed to be observed to support the recognition of these assets. This area is to remain under review during 2023 to assess the evidence of recognising these assets, given the Group's strengthening end-markets.

### Going Concern Basis and Viability Statement

Given the Group's improved results reported in the year and the strengthening medium-term outlook for Hunting's businesses, the Committee's assessment of Going Concern and Viability has been less challenging, compared to the past two years.

While the Group has reported a lower year-end cash and bank position compared to 2021, the Committee noted that Hunting has absorbed part of its cash balances in the investment in inventory to support the future growth of the Group's global businesses.

In addition, on 7 February 2022, Hunting successfully concluded the negotiation of a \$150 million Asset Based Lending facility, which adds significant long-term liquidity to the Group, and is linked to the secured value of inventories, freehold property and receivables held by Hunting's North American businesses.

As part of the Company's 2022 half year and full year audit procedures, management presented various trading scenarios to support the Going Concern assumption, which were reviewed by the Committee and the external auditor. This included a downside trading scenario.

As part of Hunting's Viability procedures, management prepared an extended forecast that provided trading projections to 2027. The Board approved this in January 2023 and used it to support the carrying values of assets held on the consolidated balance sheet.

### Fair, Balanced and Understandable Assessment

The Committee has reviewed the financial statements, together with the narrative contained within the Strategic Report set out on pages 4 to 113, and believes that the 2022 Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. In arriving at this conclusion, the Committee undertook the following:

- review and dialogue in respect of the monthly management accounts and supporting narrative circulated to the Board;
- review of early drafts of the Annual Report and Accounts, providing relevant feedback to the executive Directors;
- regular review and discussion of the financial results during the year, including briefings by Group finance and operational management; and
- receipt and review of reports from the external and internal auditors.

The Committee advised the Board of its conclusion that the 2022 Annual Report and Accounts, taken as a whole, was fair, balanced and understandable at a Meeting of Directors on 28 February 2023.

### Internal Audit

The Committee receives reports from the Internal Audit function. The Chair of the Committee also had regular dialogue with the function throughout the year. During the year, the activities of the function returned to more normal operation, following the COVID-19 pandemic, with nine field audits completed in the year.

In addition, the function increased its resources in the year, as hiring restarted across the Group.

The Group continued to implement a new ERP system within a number of businesses. To support this initiative, the Head of Internal Audit provided consulting services to the Chief IT Officer in respect of best practice control procedures and segregation of duties.

The Committee reviews the internal audit process and effectiveness as part of the Group's internal control and risk assessment programme. An annual programme of internal audit assignments was reviewed and approved by the Committee.

The Committee met with the Head of Internal Audit, without the presence of the executive Directors, on three occasions during the year. The effectiveness of the Internal Audit function was also considered by the Committee at its February meeting, which concluded that the function remained effective.

### External Audit

Deloitte LLP was appointed by the Group's shareholders as external auditor in 2019 and, therefore, no tenders have been undertaken in the year due to their current tenure. This position also applies to the engagement partner attached to the Group's account. During the year, the US audit partner rotated off the Hunting account, with a new partner appointed.

The external auditor presented reports at the February, April, August and December meetings of the Audit Committee during 2022. Further, the Chair of the Committee also had regular dialogue with the audit partner throughout the year.

On 28 February 2023, a full-year report by Deloitte was considered ahead of publication of the Group's 2022 Annual Report and Accounts. In April 2022, Deloitte presented its Management Controls Report, which highlighted control improvements they recommended could be made by the Group.

The Committee normally meets with the external auditor, without executive Directors present, at the end of each formal meeting. During the year, the Company complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

### Audit Scope

The Audit Committee considered the audit scope and materiality threshold. The audit scope addressed Group-wide risks and local statutory reporting, enhanced by desktop reviews for smaller, low risk entities. Approximately, over 78% of the Group's reported revenue and the Group's net assets were audited, covering 17 reporting units, including a number of investment holding companies, across seven countries.

### Materiality

The Committee discussed materiality with the auditor regarding both accounting errors to be brought to the Audit Committee's attention and amounts to be adjusted so that the financial statements give a true and fair view. Overall, audit materiality was set at \$4.0m (2021 – \$3.5m). This equates to approximately 0.6% of the Group's total external revenue reported in 2022. Furthermore, the auditor agreed to draw to the Audit Committee's attention all identified, uncorrected misstatements greater than \$0.2m and any misstatements below that threshold considered to be qualitatively material.

### Audit Effectiveness and Independence

The external auditor's full-year report includes a statement on their independence, their ability to remain objective and their ability to undertake an effective audit. The Committee considers and assesses this independence statement on behalf of the Board, taking into account the level of fees paid, particularly for non-audit services. The effectiveness of the audit process was considered throughout the year, with a formal review undertaken at the April meeting of the Committee. The assessment considers the various matters including:

- the auditor's understanding of the Group's business and industry sector;
- the planning and execution of the audit plan approved by the Committee;
- the communication between the Group and audit engagement team;
- the auditor's response to questions from the Committee, including during private meetings without management present;
- the independence, objectivity and scepticism of the auditors, including management challenge on any items within the scope of the audit;
- a report from the Finance Director and the Group Financial Controller; and
- finalisation of the audit work ahead of completion and announcement of the Annual Report and Accounts.

In addition, the Committee reviewed and took account of the reports from the Financial Reporting Council on Deloitte LLP, and reviewed a Transparency Report prepared by Deloitte LLP. After considering these matters, the Committee was satisfied with the effectiveness of the year-end audit process.

### Non-Audit Services

The Committee closely monitors fees paid to the auditor in respect of non-audit services. With the exception of audit-related assurance services, which totalled \$0.2m (2021 – \$0.2m), there were no non-audit services fees paid during the year (2021 – \$nil). The scope and extent of non-audit work undertaken by the external auditor was monitored by, and required prior approval from, the Committee to ensure that the provision of such services did not impair their independence or objectivity.

### Auditor Reappointment

Following discussion in February 2023, the Committee approved the recommendation to propose the reappointment of Deloitte LLP at the Company's 2023 Annual General Meeting.

### ESEF Reporting

The Group is required to produce its annual report in XHTML format, an electronic format known as a structured report, to comply with the European Single Electronic Format ("ESEF") reporting requirements. Digital tags were applied to the Group's consolidated financial statements within its 2021 Annual Report and Accounts and the structured report was successfully submitted to the FCA's National Storage Mechanism in March 2022. A qualified IT provider was involved in the preparation of the structured report and Deloitte completed a number of assurance procedures on the structured report.

During the year, ESEF tagging requirements were extended to include the notes to the financial statements. In addition, Deloitte has again been asked to review the Group's tagging procedures and report against these new requirements.

### Internal Controls

The Group has an established risk management framework and internal control environment, which was in operation throughout the year. The Committee monitors these arrangements on behalf of the Board and these are detailed in the Risk Management section of the Strategic Report on pages 102 to 109.

As noted above, a new inventory valuation methodology was introduced successfully in 2022, which addressed a number of control recommendations highlighted by the auditor as part of the 2021 year-end. In February 2023, Deloitte reported that there were no material issues identified in these specific areas during the 2022 year-end.

On behalf of the Board



**Carol Chesney**  
Chair of the Audit Committee

2 March 2023