



Audit Committee

Terms of Reference

1. Constitution and membership

The Board has established a committee of the Board known as the Audit Committee (the "Committee").

2. Membership

- 2.1. Members of the Committee shall be appointed by the Board in consultation with the Chairman of the Committee. The Committee shall be made up of at least 3 members.
- 2.2. All members of the Committee shall be non-executive directors, at least one of whom shall have recent and relevant financial experience.
- 2.3. The Chairman of the Board shall not be a member of the Committee.
- 2.4. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive Officer, Chief Financial Officer, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- 2.5. The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 2.6. Appointments to the Committee shall be for a period of up to three years, which may be extended. In general, appointments would not be expected to extend for more than two further three year periods.
- 2.7. The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy at any meeting, the remaining members present shall elect one of their number to chair the meeting.

3. Secretary

The Company Secretary (or Deputy Company Secretary) shall act as the Secretary of the Committee.

4. Quorum

The quorum necessary for the transaction of business shall be 2 members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

5. Frequency of Meetings

The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

6. Notice of Meetings

- 6.1. Meetings of the Committee may be held at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- 6.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, any other person required to attend and all other non-executive directors, no later than 4 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

7. Minutes of Meetings

- 7.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

8. Annual General Meeting

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

9. Duties

- 9.1. The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the Group as a whole, as appropriate.
- 9.2. Financial Reporting
 - 9.2.1. The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results announcements and any other statement requiring Board approval relating to its financial performance prior to its issue, reviewing significant financial reporting issues and judgements which they contain.
 - 9.2.2. The Committee shall review and challenge where necessary:
 - i. the appropriateness of the Group's significant accounting policies, the consistency of their application, and any changes to them prior to implementation;
 - 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; and

- iv. the clarity and completeness of disclosures in statements made in the Company's financial reports particularly in relation to material information presented with the financial statements, such as in the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management) or in any trading statement, and whether they are set properly in context of the Group's affairs.

10. Internal Controls and Risk Management Systems

The Committee shall:

- 10.1. keep under review the effectiveness of the Company's internal controls and risk management systems;
- 10.2. review and approve the statements to be included in the Annual Report and Accounts concerning internal controls and risk management;
- 10.3. evaluate whether management is setting the appropriate 'control culture' by communicating the importance of internal control and management of risk; and
- 10.4. consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown or to protect against computer fraud or misuse.

11. Whistle-blowing

The Committee shall review the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

12. Internal Audit

The Committee shall:

- 12.1. monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- 12.2. approve the appointment and removal of the head of the internal audit function, or of the organisation to which this function may be outsourced (note – the term "internal audit" covers either method of providing this function);
- 12.3. consider and approve the remit of the internal audit 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 standing and is free from management or other restrictions;

- 12.4. review and assess the annual internal audit plan;
- 12.5. review promptly all reports on the Company from the internal auditors;
- 12.6. review and monitor management's responsiveness to the findings and recommendations of the internal auditor;
- 12.7. meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee; and
- 12.8. if the Company does not have an internal audit function, consider annually whether there should be one and make recommendation to the Board accordingly. The absence of such a function should be explained in the Company's Annual Report and Accounts.

13. External Audit

The Committee shall:

- 13.1. consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
- 13.2. Oversee the relationship with the external auditor including (but not limited to):
 - 13.2.1. approval of their remuneration, whether fees for audit or non audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - 13.2.2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 13.2.3. 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;
 - 13.2.4. 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);
 - 13.2.5. approving the employment of any employee to grade SEM or above who has been employed on the audit of any part of the Group by the external auditor within the previous 24 months;

- 13.2.6. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements; and
- 13.2.7. assessing annually their qualifications, expertise and resources which shall include a report from the external auditor on their own internal quality procedures.

The Committee may place significant reliance on reports submitted by the external auditors in considering these items.

- 13.3. Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit.
- 13.4. Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 13.5. Review the effectiveness and the findings of the audit with the external auditor. This shall include but not be limited to a review of:
 - 13.5.1. any major issues which arose during the audit;
 - 13.5.2. any accounting and audit judgements; and
 - 13.5.3. levels of errors identified during the audit.
- 13.6. As part of this review, the Committee should also:
 - 13.6.1. consider the robustness and perceptiveness of the auditors in their handling of the above, and obtain feedback on the audit from key management involved;
 - 13.6.2. review any representation letter(s) requested by the external auditor before they are signed by management;
 - 13.6.3. review the management letter so far as it relates to material items, and management's response to it; and
 - 13.6.4. develop and implement a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter. Where non-audit services are provided, the Committee should approve the statement in the Annual Report which explains how auditor objectivity and independence is safeguarded.

14. Reporting Responsibilities

- 14.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 14.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 14.3. The Committee shall compile a report to shareholders setting out how it has discharged its responsibilities, to be included in the Company's Annual Report.
- 14.4. The Committee shall publish these Terms of Reference on the Company's website.

15. Other Matters

The Committee shall:

- 15.1. have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
- 15.2. have made available to it appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 15.3. give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules as appropriate;
- 15.4. be responsible for co-ordination of the internal and external auditors;
- 15.5. oversee any investigation of activities which are within its terms of reference; and
- 15.6. at least once a year, review its own performance, 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.

16. Authority

The Committee is authorised to:

- 16.1. seek any information it requires from any employee of the Company in order to perform its duties;
- 16.2. obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 16.3. call any employee to be questioned at a meeting of the Committee as and when required.