

## **AUDIT COMMITTEE - TERMS OF REFERENCE**

**Approved 26 February 2018**

### **1. Constitution**

- 1.1. The board hereby resolves to establish a committee of the board to be known as the Audit Committee.

### **2. Membership**

- 2.1. The committee shall consist of not less than three members. Members of the committee shall be appointed by the board, on the recommendation of the nominations committee, and in consultation with the chairman of the audit committee.
- 2.2. All members of the committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience. The audit committee as a whole shall have competence relevant to the sector in which the company operates. The chairman of the board shall not be a member of the committee.
- 2.3. The chairman of the committee shall be appointed by the board, from amongst the independent non-executive directors. In the absence of the committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

### **3. Secretary**

- 3.1. The company secretary, or his or her nominee, shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

### **4. Quorum**

- 4.1. The quorum necessary for the transaction of business shall be two members.

### **5. Attendance at meetings**

- 5.1. Only members of the committee have the right to attend committee meetings. However, the finance director, head of internal audit and external audit partner will normally be invited to attend meetings and other non-members may be invited to attend all or part of any meeting as and when appropriate.

- 5.2. There should be at least one meeting a year, or part thereof, where the external and internal auditors attend without management present.

## **6. Frequency of Meetings**

- 6.1. The committee shall meet at least four times a year and, where appropriate, should coincide with key dates in the company's financial reporting and audit cycle.
- 6.2. External auditors or internal auditors may request a meeting if they consider that one is necessary.
- 6.3. Outside of the formal meeting programme, the committee chairman will maintain a dialogue with key individuals involved in the company's governance, including the board chairman, the chief executive, the finance director, the external audit partner and the head of internal audit.

## **7. Notice of Meetings**

- 7.1. Meetings of the committee shall be convened by the secretary of the committee at the request of any of its members, the external audit partner, or head of internal audit if they consider it necessary.
- 7.2. 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 five 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.

## **8. Minutes of Meetings**

- 8.1. The secretary shall minute the proceedings and decisions of all meetings of the committee, including recording the names of those present and in attendance.
- 8.2. Draft minutes of committee meetings shall be circulated promptly to all members of the committee. Once approved, minutes should be circulated to all other members of the board, unless it would be inappropriate to do so in the opinion of the committee chairman.

## **9. Annual General Meeting**

- 9.1. The committee chairman should be present at the annual general meeting to answer any shareholder questions on the separate section of the annual

report describing the audit committee's activities and matters within the scope of the audit committee's responsibilities.

## **10. Duties**

The committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

### **10.1. Financial Reporting**

10.1.1. The committee shall monitor the integrity of the financial statements of the company any formal announcements relating to its financial performance, reviewing and reporting to the board on significant financial reporting issues and judgements which they contain.

10.1.2. In particular, the committee shall review and challenge where necessary:

- a) the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the company/group;
- b) the methods used to account for significant or unusual transactions where different approaches are possible;
- c) accounting for key estimates and judgements;
- d) the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and
- e) all material information presented with the financial statements, such as the strategic report and the corporate governance statements relating to the audit, risk management, internal control, the going concern basis of accounting and longer term viability.

10.1.3 Where the committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board.

### **10.2. Narrative Reporting**

Where requested by the board, the committee should review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

### **10.3. Internal Controls and Risk Management Systems**

The committee shall monitor and review company's internal financial controls and the internal control and risk management systems; along with related statements in the annual report.

#### **10.4. Compliance, whistleblowing and fraud**

The committee shall:

- 10.4.1. review the company's systems and controls for the prevention and detection of fraud and bribery and receive reports on non-compliance;
- 10.4.2. review arrangements by which employees and contractors may, in confidence, raise concerns about possible improprieties in financial reporting or other matters. These arrangements should allow proportionate and independent investigation of such matters and appropriate follow up action.

#### **10.5. Internal Audit**

The committee shall:

- 10.5.1 monitor and review the effectiveness of the company's internal audit function and activities in the context of the company's overall risk management systems;
- 10.5.2 approve the appointment or termination of appointment of the head of internal audit;
- 10.5.3 review and approve the role, mandate and annual internal audit plan of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 10.5.4 ensure the internal auditor has direct access to the audit committee and board chairman, where necessary, and a reporting line which enables it to be independent of the executive and so able to exercise independent judgement;
- 10.5.5 review and assess the annual internal audit plan and ensure it is aligned to the key risks of the business;
- 10.5.6 receive a report on the results of the internal auditor's work on a periodic basis;
- 10.5.7 review and monitor management's responsiveness to the internal auditor's findings and recommendations; and
- 10.5.8 meet with the head of internal audit at least once a year, without the presence of management.

## 10.6. External Audit

The Committee shall:

- 10.6.1. consider and make recommendations to the board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the company's external auditor;
- 10.6.2. initiate a tender process in accordance with regulatory requirements and influence the appointment of the engagement partner;
- 10.6.3. be responsible for the selection procedures for the appointment of audit firms;
- 10.6.4. if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 10.6.5. oversee the relationship with the external auditor including:
  - a) approval of their remuneration for audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - b) review and agree their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - c) assessing annually their independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - d) satisfying itself that there are no relationships between the auditor and the company which could adversely affect the auditor's independence and objectivity;
  - e) agreeing with the board a policy on the employment of former employees of the company's auditor, and monitoring the implementation of this policy;
  - f) monitoring the auditor's compliance with the Ethical Standard and professional guidance on the rotation of audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
  - g) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, including a report from the external auditor on their own internal quality procedures;
  - h) evaluating the risks to the quality and effectiveness of the financial reporting process, especially in light of the auditor's communication with the audit committee.

- 10.6.6. 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 without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 10.6.7. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 10.6.8. review the findings of the audit with the external auditor, including:
  - a) discussion of any major issues which arose during the audit;
  - b) how they addressed the risks to audit quality identified earlier in the audit plan;
  - c) key accounting and audit judgements;
  - d) the auditor's perception of the interaction with senior management and other members of the financial team;
  - e) levels of errors identified during the audit; and
  - f) the effectiveness of the audit process.

The committee shall also:

- 10.6.9. review any representation letter(s), management letter(s) and management's response to the auditor's findings and recommendations requested by the external auditor before they are signed by management;
- 10.6.10. develop and recommend to the board the policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account the Ethical Standard and legal requirements, and keep the policy under review.

## **11. Reporting Responsibilities**

- 11.1 The committee shall formally report to the board on how it has discharged its responsibilities.
- 11.2 The committee shall include within the annual report a description of the work of the committee in how it has discharged its responsibilities. This report, signed by the audit committee chairman, shall include:
  - a) a summary of the role and work of the audit committee;
  - b) how the audit committee composition requirements have been addressed, and the names and qualifications of all members of the audit committee during the period, if not provided elsewhere;
  - c) the number of audit committee meetings;
  - d) how the audit committee's performance evaluation has been conducted;
  - e) an explanation of how the committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment of the external auditor; the length

- of tenure of the current audit firm; the current audit partner name, and for how long the partner has held the role; when a tender was last conducted; and advance notice of any retendering plans;
- f) the committee's policy for approval of non-audit services (see appendix 1); how auditor objectivity and independence is safeguarded; the audit fees for the statutory audit of the company's consolidated financial statements paid to the auditor and its network firms for audit related services and other non-audit services, including the ratio of audit to non-audit work; and for each significant engagement, or category of engagements, explain what the services are and why the audit committee concluded that it was in the interests of the company to purchase them from the external auditor;
  - g) an explanation of how the committee has assessed the effectiveness of internal audit and satisfied itself that the quality, experience and expertise of the function is appropriate for the business;
  - h) the significant issues that it considered in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the auditors; the nature and extent of interaction (if any) with the FRC's Corporate Reporting Review team; and where a company's audit has been reviewed by the FRC's Audit Quality Review team, the Committee should discuss the findings with their auditors and consider whether any of those findings are significant and, if so, make disclosures about the findings and the actions they and the auditors plan to take. This discussion should not include disclosure of the audit quality category; and
  - i) any other issues on which the board has requested the committee's opinion.

11.5 The chairman shall attend the AGM and shall answer questions, through the chairman of the board, on the audit committee's activities and their responsibilities.

## **12. Other Matters**

The Committee shall:

- 12.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 12.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 12.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing,

Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;

- 12.4 oversee any investigation of activities which are within its terms of reference;
- 12.5 work and liaise as necessary with all other board committees; and
- 12.6 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board.

### **13. Whistleblowing**

The Committee shall review the adequacy and security of the Company's arrangements for its employees and contractors 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.

### **14. Fraud**

The Committee shall annually review the Company's procedures for detecting fraud.

### **15. Compliance**

The Committee shall:

- 15.1 Review the Company's systems and controls for ethical behaviour and the prevention of bribery and modern slavery and receive reports on non-compliance;
- 15.2 Keep under review the adequacy and effectiveness of the Company's compliance function.

### **16. Authority**

The committee is authorised to:

- 16.1 investigate any activity within its terms of reference;
- 16.2 seek any information it requires from any employee of the company in order to perform its duties;



- 16.3 call any employee to be questioned at a meeting of the Committee as and when required;
- 16.4 obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes necessary to do so and such advisors may attend meetings as necessary;
- 16.5 have the right to publish in the company's annual report details of any issues that cannot be resolved between the committee and the board.

## **Appendix 1**

### **Policy for Approval of**

#### **Non-Audit Services to be provided by External Auditors**

1. All audit and non-audit services to be provided by the external auditors are to be pre-approved by the Audit Committee or the Chairman of the Audit Committee. Where the Chairman of the Audit Committee pre-approves an assignment, this should be reported to the next meeting of the Audit Committee.
2. The external auditors are not permitted to supply services in the following areas:
  - Tax services relating to:
    - preparation of tax forms;
    - payroll tax;
    - customs duties;
    - identification of public subsidies and tax incentives unless support from the external auditor in respect of such services is required by law;
    - support regarding tax inspections by tax authorities unless support from the external auditor in respect of such inspections is required by law;
    - calculation of direct and indirect tax and deferred tax;
    - provision of tax advice;
    - services that involve playing any part in the management or decision-making of the Company;
    - bookkeeping and preparing accounting records and financial statements;
    - payroll services;
    - designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
    - valuation services, including valuations performed in connection with actuarial services or litigation support services;
    - legal services, with respect to:
      - o the provision of general counsel;
      - o negotiating on behalf of the Company; and

- acting in an advocacy role in the resolution of litigation;
- services related to the Company's internal audit function;
- services linked to the financing, capital structure and allocation, and investment strategy of the Company, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the Company;
- promoting, dealing in, or underwriting shares in the Company; and
- human resources services with respect to:

management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the audit where such services involve searching for or seeking out candidates for such services or undertaking reference checks for candidates of such positions;

structuring the organisation design; and

cost control.

3. The Audit Committee has, however, agreed that certain work can be given to the external auditors under a continuing authority, provided that the Audit Committee is informed on a timely basis of each service. This covers:

Statutory audit assignments and interim reviews;

Tax work (except in respect of the services described in section 2.1) provided such work has been approved in the first instance by the Audit Committee;

Work under the requirements of the UK Listing Authority or similar regulatory bodies;

Other pre-approved services, being:

3.1.1 Providing financial reporting research tools;

3.1.2 Providing training courses;

3.1.3 Accounting advice in relation to new accounting developments, business developments and complex transactions; and

3.1.4 Any other service where the fee does not exceed more than £50,000 subject to it being a permitted service in accordance with applicable FRC Ethical Standards.

4. The Audit Committee will receive a report at each meeting of all non-audit work which has been undertaken, and the value of such work.
5. If a permissible non-audit service is rendered before the appropriate pre-approval has been obtained due to an inadvertent oversight, this shall be promptly brought to the attention of the Audit Committee or the Chairman of the Audit Committee before the completion of the assignment.