

## **AUDIT COMMITTEE – TERMS OF REFERENCE**

### **A. Sub-Committee of the Board**

The Audit Committee ('the Committee') has been established by the Board as a subcommittee of the Board.

### **B. Membership of the Committee**

1. The Committee shall comprise of at least one independent non-executive director and the Chairman of the Board. For this purpose 'independent' shall mean that apart from Directors' fees and shareholdings, they are independent of management, independent in character and judgement and free from any business or other relationship or circumstance which is likely to affect, or could appear to affect the exercise of their independent judgement as a Committee member. At least one Committee member shall have recent and relevant financial experience.
2. The Board shall appoint the Committee Chairman, who should be a Non-executive Director and shall determine the period for which members of the Committee shall hold office. Notwithstanding that he might qualify as a member of the Committee, the Chairman of the Company shall not normally be eligible to be appointed Chairman of the Committee.
3. The Committee Chairman and members shall be listed each year in the Annual Report.

### **C. Purposes of the Committee**

The main role and responsibilities of the Audit Committee are to:

1. monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
2. review the Company's internal financial controls and internal control and risk management systems;
3. review the need to establish an internal audit function;
4. make recommendations to the Main Board in relation to the appointment, reappointment and removal of the external auditor and approve remuneration and terms of engagement of the external auditor;
5. review and monitor the external auditor's independence and the effectiveness of the audit process; and
6. develop and implement a policy on the engagement of the external auditor to supply non-audit services.

To this end the Committee shall:

#### 1. External Auditors

- i) consider and make recommendations to the Board for the appointment, re-appointment and removal of the Group external auditor and to approve the remuneration and terms of engagement of the Group external auditor;
- ii) if the Main Board does not accept the Committee's recommendation on the appointment, re-appointment and removal of the Group external auditor, prepare a statement explaining the Committee's recommendation which shall be included in the Annual Report and in any papers recommending appointment or re-appointment together with the Main Board's reasons for taking a different position;
- iii) discuss with the external auditor before the audit commences the nature, scope and co-ordination of the audit;
- iv) review and monitor the independence and objectivity of the auditors and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- v) develop and implement a policy on the provision of non-audit services by the Group external auditor, taking into account relevant ethical guidance; and report to the Main Board identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken (so as to ensure that the provision of such services does not impair the Group external auditor's independence and objectivity);
- vi) consider the Group external auditor's work plan for the annual audit, interim and quarterly reviews and proposed resources in light of the scope of the audit;
- vii) discuss with the Group external auditor issues arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary), including:
  - a) any major issues that arose during the course of the audit;
  - b) key accounting and audit judgements;
  - c) levels of errors identified during the audit, obtaining explanations from management, and where necessary the external auditors, as to why certain errors might remain unadjusted; and
  - d) any reservations that the Group external auditor may have and other matters that they wish to raise;
- viii) review the audit representation letters before signature by management, giving particular consideration to matters where representation has been requested that relates to non-standard issues;
- ix) review the Group external auditor's management letter and management's response;
- x) at the end of the annual audit cycle, assess the effectiveness of the audit process; in the course of so doing the Committee should:
  - a) review whether the auditor has met the agreed audit plan and understand the reasons for any changes;
  - b) consider the robustness and perceptiveness of the auditors in their handling of the identified key accounting and audit judgements, in responding to the Committee's questions and in their commentary on the internal control systems;

- c) obtain feedback about the conduct of the audit from key people (e.g. Group Finance Director);and
- d) review and monitor the content of the Group external auditor's management letter, to assess whether it is based on a good understanding of the Company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.

## 2. Internal Audit

- i) review the need to establish an internal audit function in line with the growth of the group

## 3. Financial Statements

- i) assist the Board in ensuring the Company's published financial statements comply with statute and all applicable accounting standards and good practice;
- ii) monitor the integrity of the financial statements of the Company including any interim reports and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them, focusing particularly on:
  - a) any changes in accounting policies and practices;
  - b) whether the Company has adopted appropriate accounting policies;
  - c) the completeness of disclosures in financial statements and whether the disclosures made are set properly in context;
  - d) major judgmental areas;
  - e) significant adjustments resulting from the audit;
  - f) the going concern assumption;
  - g) compliance with accounting standards;
  - h) compliance with the UK Listing Authority's Listing Rules and legal requirements; and
  - i) any other statutory or quasi-statutory requirements.

## 4. Internal Control and Risk Management

- i) review the Company's internal financial controls (that is, the systems established to identify, assess, manage and monitor financial risks) and to review the effectiveness of the Group's internal control and risk management-systems, prior to endorsement by the Board;
- ii) review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, so as to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- iii) consider the major findings of internal investigations and management's response.

## 5. Reporting Responsibilities

- i) assist the Board by preparing a statement for inclusion in the Annual Report describing the role and responsibilities of the Committee and actions taken by it to discharge those responsibilities; as well as listing the names of all members of the Committee, the number of Committee meetings and attendance by each member;
- ii) produce for the Board's approval the statement for inclusion in the Annual Report in relation to internal control and the management of risk;
- iii) if the external auditor provides non-audit services, provide an explanation, for inclusion in the Annual Report, of how auditor objectivity and independence has been safeguarded.

## 6. Miscellaneous

- i) enquire into transactions in which Directors or senior management may be personally interested;
- ii) monitor compliance with Board procedures;
- iii) make available these Terms of Reference, explaining the Committee's role and the authority delegated to it by the Board;
- vii) consider any other matters referred to the Committee by the Board.

## D. Meetings

1. The Committee shall meet at such time and such places as the Chairman of the Committee, in consultation with the Company Secretary, shall notify to all members of the Committee provided that the Committee shall meet at least twice a year to consider all issues arising regarding the financial performance and control environment including half-year and annual financial statements before submission to the Board.

2. Any one member of the Committee or the external auditors may require a meeting of the Committee to be held at any time upon giving reasonable notice to the members of the Committee.

3. Other Board members shall have a right of attendance.

4. No Board member or Committee attendee shall participate in any discussion or decision on any matter where a potential conflict of interest may arise and (if so requested by the Committee) shall not be in attendance whilst such resolution is being considered by the Committee.

5. Any two members of the Committee shall comprise a quorum.

6. In the absence of the Committee Chairman or any appointed Deputy, the remaining members present shall elect one of their member to chair the meeting.

7. In the event of equality of votes, the Committee Chairman shall have a casting vote.

8. Each member of the Committee shall disclose to the Committee any personal financial interest in any matter to be decided by the Committee and any potential conflict of interest arising from a cross-directorship.

#### **E. Professional Advice and Other Information**

1. The Committee is authorised to seek any information it requires from any staff member and all staff members will be required to co-operate with any request made by the Committee.
2. The Committee is authorised by the Board, in the furtherance of its duties, to obtain outside legal or other independent professional advice at the Company's expense. Any advice obtained shall be available to the other members of the Board and the Company Secretary, if the Board so requests.

#### **F. Company Secretary**

The Company Secretary shall act as Secretary to the Committee and shall:

- a) ensure that Minutes are made of each meeting of the Committee;
- b) circulate the Minutes of meetings of the Committee to all members of the Board and other attendees present at the meeting.

#### **G. Annual General Meeting and Contact with Shareholders**

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