

Chapter 7: Terms of Reference of the Audit Committee

1. Membership

- 1.1 The Audit Committee must comprise of a minimum of two members from amongst the non-executive Directors of the Company identified by the Board as independent, and the majority of members of such Committee must be independent directors.
- 1.2 Members of the Audit Committee should ideally include members who, between them have not only recent and relevant financial experience, but also overall:
 - 1.2.1 extensive business experience;
 - 1.2.2 knowledge of financial markets;
 - 1.2.3 an understanding of management practices, including risk management activities, both generally and in the company's industry sector; and
 - 1.2.4 knowledge of any relevant specialist regulatory or legal requirements.
- 1.3 The chairman of the Audit Committee shall be an independent non-executive director with recent and relevant financial experience.
- 1.4 The Chairman of the Board, any board member employed by the Company or by its controlling shareholder or rendering the Company or its controlling shareholder services on an ongoing basis or whose livelihood depends upon the Company shall not be a member of the Audit Committee.
- 1.5 Appointments to the Audit Committee shall be for a period of up to three years, which may be extended for two further three year periods provided the appointees remain independent.
- 1.6 Only members of the Audit Committee have the right to attend its meetings. However, other individuals may be invited to attend as and when appropriate, in each case only upon the determination of the Chairman of the Audit Committee.

2. Chairman

- 2.1 The Board shall appoint the chairman of the Audit Committee. The chairman must be an independent non-executive Director and have recent and relevant financial experience. The chairman has the responsibility of liaising with the Board.
- 2.2 The chairman shall chair the meetings of the Audit Committee.
- 2.3 In the absence of the chairman of the Audit Committee, the remaining members present shall elect one of themselves to chair the meetings of the Audit Committee.
- 2.4 The chairman shall support and, if necessary, mentor the finance director in the responsibilities arising in a quoted company environment and shall manage the Audit Committee as a team to perform an effective oversight role within a unitary board structure.

3. Secretary

- 3.1 The Company Secretary or his/her delegate shall be the secretary of the Audit Committee.
- 3.2 The secretary of the Audit Committee or his/her delegate shall attend meetings of the Audit Committee to take minutes.
- 3.3 In the absence of the secretary of the Audit Committee, the members present at the meeting of the Audit Committee shall elect another person as the secretary.

3.4 The secretary shall assist the chairman to determine the agenda for meetings to ensure that the committee can effectively discharge its responsibilities.

3.5 The secretary to the Audit Committee should not be a member of the Audit Committee and should not be the Finance Director.

4. Quorum

4.1 The quorum necessary for the transaction of business of the Audit Committee shall be the majority of its members provided the majority of those present are independent directors.

4.2 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The relevant member of the Audit Committee shall not be counted towards the quorum and he/she must refrain from participating in discussions for approval of and abstain from voting on any resolution of the Audit Committee in which he/she and/or his/her associates have a material interest.

4.3 A duly convened meeting of the Audit 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 Audit Committee.

5. Role of the Finance Director

5.1 The Finance Director, while not a member of the Audit Committee, shall work closely with the chairman and secretary of the Audit Committee to ensure that supporting papers of the meeting are both comprehensive and comprehensible and are available for distribution sufficiently in advance of meetings of the Audit Committee.

5.2 The Finance Director will have responsibility for developing and implementing all necessary policies and procedures for sound financial management and control.

5.3 The Finance Director will attend most meetings of the Audit Committee in order to participate in discussions on papers prepared by the finance team, and decisions which he or she may be involved in implementing.

6. Frequency of meetings

6.1 The Audit Committee shall meet at least two times a year and at such other times as the Chairman of the Audit Committee shall require and in any event at appropriate times in the reporting and audit cycle and as otherwise required.

6.2 Any member of the Audit Committee, the internal auditors or the external auditors may request a meeting if they consider that one is necessary.

7. Attendance at meetings

7.1 Members of the Audit Committee may attend meetings of the Audit Committee either in person or through other electronic means of communication, provided all participating Committee members can hear each other.

7.2 Should any member of the Audit Committee wish to attend a meeting through electronic communications, prior arrangements shall be made with the secretary of the Audit Committee.

7.3 Other than members of the Audit Committee, the finance director, the head of internal audit, and a representative of the external auditors shall normally attend meetings (in each case only upon the determination of the Chairman of the Audit Committee) along with the members of the Audit Committee.

8. Notice of meetings

- 8.1 Meetings of the Audit Committee shall be summoned by the secretary of the Audit Committee at the request of any of its members.
- 8.2 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 Audit Committee, and to any other person required to attend within a reasonable time and at least five working days prior to the date of the meeting. Supporting papers shall be sent to Audit Committee members and to other attendees as appropriate, within a reasonable time and at least five working days prior to the date of the meeting.
- 8.3 Any member of the Audit Committee shall be entitled, by notice to the secretary of the Audit Committee, to include other matters relevant to the functions of the Audit Committee in the agenda of an Audit Committee meeting.

9. Minutes of meetings

- 9.1 The secretary of the Audit Committee (or his/her delegate) in attendance at the meetings of the Audit Committee shall minute in sufficient detail the proceedings and resolutions of all such meetings, including the names of those present and in attendance. The minutes should also include any concerns raised by any member of the Audit Committee and/or dissenting views expressed.
- 9.2 The Secretary of the Audit Committee (or his/her delegate) shall ascertain, at the beginning of each meeting, the existence of any conflicts of interests and minute them accordingly.
- 9.3 Draft and final versions of minutes of the Audit meetings shall be sent to all Audit Committee members for their comments and records respectively, in both cases within a reasonable time after the meeting. Once they are agreed, the secretary of the Audit Committee shall circulate the minutes, and reports of the Audit Committee, to all members of the Audit Committee and to all members of the Board.
- 9.4 Minutes of the Audit Committee meetings shall be kept by the secretary of the Audit Committee and shall be available for inspection by any member of the Audit Committee or Director at any reasonable time on reasonable notice.

10. Annual General Meeting

- 10.1 The chairman of the Audit Committee shall attend the AGM of the Company and be prepared to respond to any Shareholder questions on the Audit Committee's activities.

11. Duties

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

- 11.1 Monitoring in discussion with the auditors the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance and reviewing significant financial reporting judgements contained in them. The Audit Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents such as announcements of a sensitive nature;
- 11.2 Reviewing the Company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the Board itself, to review the Company's internal control and risk management systems and review and approve, unless done so by the Board as a whole, the statements to be included in the annual report concerning internal controls and risk management, including the review of matters of a non-financial nature.
- 11.3 The Audit Committee shall review and challenge where necessary:

- 11.3.1 the consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company and the Group;
 - 11.3.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 11.3.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditors;
 - 11.3.4 the clarity of disclosure in the company's financial reports and the context in which statements are made;
 - 11.3.5 all material information presented with the financial statements, such as the operating and financial review and the Corporate Governance Statement (insofar as it relates to the audit and risk management).
- 11.4 The Audit Committee shall review the annual financial statement of the pension funds where not reviewed by the Board as a whole.
- 11.5 Monitoring and reviewing the effectiveness of the Company's internal audit function and, where there is no internal audit function, considering annually whether there is a need for an internal audit function and making a recommendation to the Board;
- 11.6 Approve the appointment/removal of the head of the internal audit function;
- 11.7 The Audit Committee shall 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. It shall also ensure the function has adequate standing and is free from management and other restrictions.
- 11.8 The Audit Committee shall:
- 11.8.1 review and assess the annual internal audit plan;
 - 11.8.2 review promptly all reports on the Company from the internal auditors;
 - 11.8.3 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
 - 11.8.4 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 Audit Committee; and
 - 11.8.5 ensure that at least every ten years the audit services contract is put out to tender to enable the committee to compare the quality and effectiveness of the incumbent auditor with those of other audit firms.
- 11.9 Making recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor.
- 11.10 Reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK and other relevant professional and regulatory requirements.
- 11.11 Reviewing the external auditor's fee and making recommendations to the Board in this regard;
- 11.12 Reviewing reports from management and the Company's auditors on the financial accounts and internal control systems used throughout the Company.

- 11.13 Developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and reporting to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- 11.14 Reviewing arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensuring that arrangements are in place for the proportionate and independent investigation of such matters with appropriate follow-up action and reviewing the Company's procedures for detecting fraud.
- 11.15 The Audit Committee shall:
- 11.15.1 Consider and make recommendations to the board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment 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.
- 11.15.2 Consider and engage effectively with shareholders on the extent of the Audit Committee's activities.
- 11.15.3 Oversee the relationship with the external auditor including (but not limited to):
- (a) 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;
 - (b) approval of 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 jurisdictions' professional and regulatory 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 (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business);
 - (e) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
 - (f) 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;
 - (g) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
 - (h) seeking to ensure co-ordination with the activities of the internal audit function.
- 11.15.4 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 Audit 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.
- 11.15.5 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 11.15.6 Review the findings of the audit with the external auditor. This shall include but not

be limited to, the following:

- (a) a discussion of any major issues which arose during the audit;
- (b) any accounting and audit judgements;
- (c) levels of errors identified during the audit.

11.16 The Audit Committee shall also review the effectiveness of the audit:

11.16.1 review any representation letter(s) requested by the external auditor before they are signed by management;

11.16.2 review the management letter and management's response to the auditor's findings and recommendations;

11.16.3 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.

11.17 Reporting responsibilities:

11.17.1 The Chairman of the Audit Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities;

11.17.2 The Audit Committee shall make whatever recommendations to the Board it deems;

11.17.3 The Audit Committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

12. Reporting responsibilities

12.1 The chairman of the Audit Committee shall report formally to the Board on proceedings after each meeting on all matters within its duties and responsibilities.

12.2 The Audit Committee shall compile a report to Shareholders on its role and activities to be included in the Company's Annual Report.

13. Others

13.1 The Audit Committee shall have access to sufficient resources in order to discharge its duties. In the event that the Audit Committee determines that it has insufficient resources, it may make a request for additional resources to the Chief Executive Officer. If the request for additional resources is denied, the Audit Committee may, if it chooses, make a request to the Board through the office of the Chief Executive Officer. The Board shall convene a Board meeting as soon as reasonably practicable to consider the request.

13.2 The Audit Committee shall 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.

13.3 All members of the Audit Committee shall have access to the advice and services of the secretary of the Audit Committee with a view to ensuring that procedures of the Audit Committee and all applicable rules and regulations are followed.

13.4 Every member of the Audit Committee shall give sufficient time and attention to his/her duties as a member of the Audit Committee. He/she shall give the Company the benefit of his skills and expertise through regular attendance and active participation.

13.5 The Audit Committee shall oversee any investigations of activities and not for internal purposes as a court of the last resort.

- 13.6 The Audit Committee shall, 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.
- 13.7 The terms of reference of the Audit Committee should be available to view on the Company's website.

14. Authority

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it reasonably requires from any employee and all employees are directed to co-operate with any reasonable request made by the Audit Committee and to obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference.