

Audit & Compliance Committee: Terms of Reference

1 Membership

- 1.1 The committee shall comprise at least two members. Members of the committee shall be appointed by the board, in consultation with the chairman of the audit and compliance committee.
- 1.2 Only members of the committee have the right to attend committee meetings. However, the external auditor and finance director will be invited to attend meetings of the committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.3 The board shall appoint the committee chairman who must be an independent non-executive director. 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.
- 1.4 Appointments to the committee shall be made for a period of up to three years extendable by no more than two additional three-year periods provided that members who were independent on appointment continue to be independent. All appointments shall be reviewed annually.
- 1.5 All members of the committee shall be non-executive directors at least one of whom shall have recent and relevant financial experience. The chairman of the board may be a member of, but not chair, the committee provided (s)he was independent on appointment as chairman.

2 Secretary

- 2.1 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.

3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be two members which must include one independent non-executive director. All decisions must be made by unanimous consensus. If consensus cannot be reached, the matter will be referred to the board for decision.

4 Frequency of meetings

- 4.1 The committee shall meet at least once a year and otherwise as required by the board to do so.
- 4.2 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, and the external audit lead partner.

5 Notice of meetings

- 5.1 Meetings of the committee shall be convened by the secretary of the committee at the request of any of its members or at the request of the external audit lead partner. Reasonable notice of at least three working days will be given before the date of the meeting along with all supporting papers.

6 Minutes of meetings

- 6.1 The secretary or his appointee shall minute the proceedings of all meetings of the committee, including recording the names of those present and in attendance.
- 6.2 Decisions of the committee shall be recorded in the minutes. Where a decision has not been reached by consensus, the reasons for this should be noted in the minutes.
- 6.3 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.

7 Annual general meeting

- 7.1 The committee chairman should attend the annual general meeting to answer shareholder questions on the committee's activities.

8 Duties

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

- 8.1 Monitor the integrity of the financial statements of the company, reviewing and reporting to the board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.
- 8.2 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. Whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- D. The clarity and completeness of disclosure in the company's financial reports and the context in which statements are made;
- E. All material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management.

8.3 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.

Narrative reporting

8.4 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 performance, business model and strategy.

Internal control and risk management

8.5 Keep under review the adequacy and effectiveness of the company's internal financial controls and internal control and risk management systems.

8.6 Review and approve the statements to be included in the annual report concerning internal controls and risk management.

Compliance and Anti-Bribery

8.7 Review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.

Whistleblowing and fraud

8.8 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, suspicions of bribery/corruption or other matters.

8.9 Ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

8.10 Review the company's procedures for detecting fraud.

Internal audit

8.11 The committee shall consider whether the organisation is of a size that requires an internal audit function.

8.12 Where this is not required, the audit committee should be satisfied that alternative arrangements are in place to offer assurances over internal control and risk management processes. An explanation of this nature should be included in the annual report.

8.13 Where an internal audit function is required, the audit committee should approve the appointment or termination of appointment of the head of internal audit, review and approve the internal audit charter and annual internal audit work plan and receive reports on the results of the internal auditor's work on a periodic basis.

External auditor

8.14 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.

8.15 Ensure that periodically at least once every ten years the audit services contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.

8.16 If an auditor resigns, the committee shall investigate the issues leading to this and decide whether any action is required.

8.17 The committee will oversee the relationship with the external auditor using section 4 of the FRC's Guidance on Audit Committees as its guidance.

8.18 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.

8.19 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.

8.20 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:

- A. Discussion of any major issues which arose during the audit;
- B. key accounting and audit judgements;
- C. Levels of errors identified during the audit;
- D. The effectiveness of the audit process;
- E. Review any representation letter(s) requested by the external auditor before they are signed by management;
- F. Review the management letter and management's response to the auditor's findings and recommendations.

8.21 The committee will develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

9 Reporting responsibilities

9.1 The committee chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the board on how it has discharged its responsibilities. This report shall include:

- A. The significant issues that it considered in relation to the financial statements (required under paragraph 8.1) and how these were addressed;
- B. Its assessment of the effectiveness of the external audit process (required under paragraph 8.20.d) and its recommendation on the appointment or reappointment of the external auditor; and
- C. Any other issues on which the Board has requested the Committee's opinion.

9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.

9.3 In the compiling the reports referred to in 9.1, the committee should exercise judgement in deciding which of the issues it considers to be significant in relation to the financial statements are significant, and should include at least those matters that have informed the board's assessment of whether the company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

10 Other matters

The committee shall:

10.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.

- 10.2 Be provided with appropriate and timely training on an ongoing basis for all members.
- 10.3 Give due consideration to laws and regulations, the provisions of the Code and any other applicable rules, as appropriate.
- 10.4 Oversee any investigation of activities which are within its terms of reference.
- 10.5 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 for approval.

11 Authority

The committee is authorised to:

- 11.1 Seek any information it requires from any employee of the company in order to perform its duties.
- 11.2 Obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so.
- 11.3 Call any employee to be questioned at a meeting of the committee as and when required.
- 11.4 Have the right to publish in the company's annual report, details of any material issues that cannot be resolved between the committee and the board.