

## **Audit Committee terms of reference**

### **1. Membership**

- 1.1 Members of the committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the audit committee. The committee shall be made up of at least 3 members.
- 1.2 The majority of members of the committee shall, in the opinion of the board, be independent non-executive directors at least one of whom shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional bodies. The chairman of the board shall not be a member of the committee.
- 1.3 Only members of the committee have the right to attend committee meetings. However, other individuals and external advisors may be invited to attend all or part of any meeting as and when appropriate.
- 1.4 The committee will meet with the external valuers twice a year.
- 1.5 Appointments to the committee shall be for a period of up to three years, which may be extended for two further three year periods, provided the director still meets the criteria for membership of the committee. Any further term will be based on annual reappointment.
- 1.6 The board shall appoint the committee chairman. In the absence of the committee chairman and/or and appointed deputy, the remaining members present shall elect one of themselves to chair the meeting:
- 1.7 Until further notice, the members of the audit committee are:

Mrs L. Bell                      (Chair)  
Mr S. Fraser  
Mr. R Dakin  
Mrs C.I Arney

### **2. Secretary**

The company secretary or a 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.

### **3. Quorum**

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

#### **4. Frequency of meetings**

The committee shall meet at least 4 times a year at appropriate times in the reporting and audit cycle and otherwise where required.

Outside 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 auditor.

#### **5. Notice of meetings**

5.1 Meeting of the committee shall be called by the secretary of the committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.

5.2 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 and any other person required to attend, no later than 5 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.

#### **6. Minutes of meetings**

6.1 The secretary shall minute the proceedings and resolutions of all meetings of the committee, including recording the names of those present and in attendance.

6.2 Minutes of committee meetings shall be circulated promptly to the chairman of the committee and, once agreed, be made available to all members of the board, unless a conflict of interest exists.

#### **7. 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.

#### **8. Duties**

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

##### **8.1 Financial Reporting**

8.1.1 The committee shall monitor the integrity of the financial statements of the company, including its annual and interim reports, preliminary results' announcements, interim management statements and any other formal announcements relating to its financial performance, reviewing the significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the auditor. The 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 price sensitive nature.

- 8.1.2 The committee shall review and challenge where necessary:
  - 8.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
  - 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 8.1.2.3 whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 8.1.2.4 the clarity and completeness of disclosure in the company's financial reports and the context in which statement are made; and
  - 8.1.2.5 all material information presented with the financial statements, such as the business review and the corporate governance statement (insofar as it relates to the audit and risk management).
- 8.1.3 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.
- 8.1.4 The committee shall review the annual financial statements of the pension funds, where not reviewed by the board as a whole.
- 8.2 Narrative reporting
  - 8.2.1 Where requested by the board, the committee should review the content of the annual report and accounts and advise the board 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.
- 8.3 Control systems
  - 8.3.1 The committee shall keep under review the effectiveness of the company's internal financial controls and review and approve the statements to be included in the annual report concerning such controls
  - 8.3.2 Non-financial internal controls and risk management systems- the review of these has been assigned to the company's Risk Committee.
- 8.4 Compliance and Whistleblowing
  - The committee shall:
    - 8.4.1 review the adequacy and security of the company's arrangements for its employees to raise concerns, in confidence, about possible wrong doing 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;

- 8.4.2 review the company's systems and controls for the prevention of bribery and receive reports on non-compliance;

## 8.5 Internal audit

The committee shall:

- 8.5.1 monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system;
- 8.5.2 approve the appointment and removal of the head of internal audit function;
- 8.5.3 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 relevant professional standards. The committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- 8.5.4 review and assess the annual internal audit plan;
- 8.5.5 receive a report on the results of the internal audit's work on a periodic basis;
- 8.5.6 review and monitor management's responsiveness to the findings and recommendations of the internal auditors; and
- 8.5.7 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;
- 8.5.8 monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system.

## 8.6 External Audit

- 8.6.1 consider and make recommendations to the board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment 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;
- 8.6.2 ensure that 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 access as is necessary to information and individuals during the duration of the tender process.

- 8.6.3 oversee the relationship with the external auditor including (but not limited to):
- 8.6.3.1 recommendations on their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 8.6.3.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.6.3.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provisions of any non-audit services;
  - 8.6.3.4 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);
  - 8.6.3.5 agreeing with the board a policy on the employment of former employees of the company's auditors, then monitoring the implementation of this policy;
  - 8.6.3.6 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;
  - 8.6.3.7 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;
  - 8.6.3.8 seeking to ensure co-ordination with the activities of the 6 internal audit function; and
  - 8.6.3.9 evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation.
- 8.6.4 meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit 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;
- 8.6.5 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; and

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

8.6.6.1 a discussion of any major issues which arose during the audit;

8.6.6.2 key accounting and audit judgements;

8.6.6.3 levels of errors identified during the audit; and

8.6.6.4 the effectiveness of the audit process.

The committee shall also;

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

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

8.6.9 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.

## **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. This report shall include:

9.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed

9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.6.3.7) and its recommendation on the appointment or reappointment of the external auditor; and

9.1.3 any other issues on which the board has requested the Committees 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 The committee shall compile a report to shareholders on its activities to be included in the company's annual report. The report should include an explanation of how the committee has addressed the effectiveness of the external audit process; the significant issues that the committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor, and all other information requirements set out in the UK Corporate Governance Code.

- 9.4 In compiling the reports referred to in 9.1 and 9.3, the committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but 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 committees 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, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 10.3 give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK List Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 10.4 be responsible for co-ordination of the internal and external auditors;
- 10.5 oversee any investigation of activities which are within its terms of reference;
- 10.6 work and liaise as necessary with all other board committees;
- 10.7 arrange periodic reviews of its own performance and, at least once a year, 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

- 11.1 to seek any information it requires from any employee of the company in order to perform its duties;
- 11.2 to obtain, at the company's expense, independent legal, accounting or other professional advice on any matter within its terms of reference;
- 11.3 to call any employee to be questioned at a meeting of the committee as and when required;
- 11.4 to 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.