

## Terms of Reference – Audit Committee

### 1. COMPOSITION

- 1.1 The Audit Committee shall be a Committee of the Board and its members appointed by the Board on the recommendation of the Nomination Committee in consultation with the Chair of the Committee.
- 1.2 The Committee shall comprise not less than three members, all of which shall be independent non-executive directors of the Company and of which at least one member will have recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which the Company operates.
- 1.3 The Chair of the Board shall not be a member of the Committee. The Board shall appoint the Chair of the Committee.
- 1.4 Only members of the Committee have the right to attend Committee meetings, however the Committee may invite the Chair of the Board, the Chief Executive, the Chief Financial Officer, the Head of Internal Audit and other individuals, including additional representatives from the finance function, to attend all or part of any meeting, as and when appropriate. The external auditor shall also attend meetings of the Committee on a regular basis, upon the request of the Committee. All Non-Committee members attend the meetings held to consider the Company's full and half-year reports.
- 1.5 At least twice a year, the Committee shall meet with the external auditor and internal auditors, without Executive Directors or other senior management present, to discuss matters relating to its remit and any issues arising from the audit programme.
- 1.6 The Company Secretary or their nominee shall be the Secretary to the Committee.
- 1.7 Each member shall hold office as a Committee member for a period of up to three years, which may be extended by no more than two additional three-year periods, so long as the member continues to be an independent non-executive director.
- 1.8 The Chair and members shall be listed each year in the Company's Annual Report.

### 2. MEETINGS

- 2.1 The quorum for any meeting shall be two of the Committee members present throughout the meeting in person or by telephone or video conference.
- 2.2 The Committee shall normally meet at least three times a year, held to coincide with key dates within the financial reporting and audit cycle, and additionally as and when required. The Chair of the Committee may convene meetings at their discretion. A meeting of the Committee may also be called by any member of the Committee or by the Secretary or at the request of the external auditor.

- 2.3 Unless otherwise agreed, notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers (where appropriate), shall be forwarded to each member of the Committee, and to each other person invited to attend (as appropriate), not less than five clear days prior to the date of the meeting. All reasonable efforts shall be made to give notice of meetings of the Committee to all members of it and to arrange such meetings so that members are able to attend them.
- 2.4 A member of the Committee may participate in a Committee meeting by telephone or video conference.
- 2.5 In the event of equality of votes, the Chair of the Committee shall refer the matter to the Board for resolution.
- 2.6 If any member of the Committee is unable to act for any reason, and there are additional independent non-executive directors of the Company who are not already members of the Committee, the Chair of the Committee may appoint one of those non-executive directors, agreed by other members of the Committee, to act as that member's alternate.
- 2.7 The members of the Committee shall serve on the Committee at the discretion of the Board and may be removed by the Board.
- 2.8 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the external auditor and the Head of Internal Audit. The external auditor shall have access to the Committee Chair at any time.

### **3. RESPONSIBILITIES**

The Committee should have oversight of the group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate:

#### **3.1 Financial Reporting**

- (a) Monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and estimates and judgments which they contain having regard to matters communicated to it by the external auditor.
- (b) 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.
- (c) Review and challenge, where necessary:

- (i) the consistency of, and any changes to the application of, significant accounting policies and practices both on a year on year basis and across the Company;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) whether the Company has adopted and followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
  - (iv) the clarity and completeness of disclosure in the Company's financial statements and the context in which statements are made;
  - (v) effectiveness of management procedures for financial reporting including the clarity and completeness of disclosures in the financial statements;
  - (vi) whether disclosures are set properly in context;
  - (vii) the going concern assumption; and
  - (viii) all material information presented with the financial statements, such as the Strategy Report and the corporate governance statements (insofar as it relates to the audit and risk management).
- (d) As appropriate, the Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Financial Conduct Authority's (the "FCA") Listing Rules, Prospectus Regulation Rules Sourcebook and Disclosure Guidance and Transparency Rules Sourcebook.
- (e) 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.<sup>3.2</sup> Annual Report and Accounts

Where requested by the Board, the Committee shall 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 and whether it informs the Board's statement in the annual report on these matters that is required by the UK Corporate Governance Code (the "Code")

### 3.3 Risk Reporting

The Committee shall consider and advise the Board on the risks facing the business and how these are tracked, managed, mitigated and reported.

### 3.4 Internal Controls and Risk Management Systems

The Committee shall:

- (a) keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems (ie the systems established to identify, assess, manage and monitor financial risks);
- (b) consider major findings of internal investigations and management's response; and
- (c) review and approve the statements to be included in the Annual Report concerning internal controls, risk management, including the assessment of principal risks and emerging risks, and the viability statement.

### 3.5 Compliance and fraud

The Committee shall:

- (a) review the Company's procedures for detecting fraud; and
- (b) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

### 3.6 Internal Audit

The Committee shall:

- (a) monitor and review the role and mandate of the Company's internal audit function, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the Company;
- (b) approve the appointment or removal of the Head of the Internal Audit function;
- (c) consider and approve the remit of the internal audit function and ensure it has unrestricted scope, the necessary resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards and ensure that there is open communication between the different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan. The Committee shall also ensure the function has adequate standing and is independent of senior management or other restrictions;
- (d) review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business and, where appropriate, request that the internal audit and risk management function undertakes specific work, and the Committee shall receive regular reports on work carried out. The Committee shall pay particular attention to the areas in which the work of the risk, compliance, finance, internal audit and external audit functions may be aligned or overlapping and overseeing these relationships to ensure they are coordinated and operating effectively to avoid duplication;

- (e) review promptly all reports on the Company submitted to it by the Head of Internal Audit and consider key risks facing the Company, including appropriate mitigating actions, and report on this to the Board;
- (f) review and monitor management's responsiveness to the findings and recommendations of the Head of Internal Audit;
- (g) meet the Head of Internal Audit at least twice 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 Chair of the Board and to the Committee and shall be accountable to the Committee;

### 3.7 External Audit

The Committee shall:

- (a) 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;
- (b) develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- (c) if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the external auditor including (but not limited to):
  - (i) reviewing their remuneration and recommending to the Board for approval a level of fees for audit and non-audit services that is appropriate to enable an effective and high-quality audit to be conducted;
  - (ii) reviewing and agreeing the engagement letter with the external auditor at the start of each audit; discussing with the external auditor before the audit commences the nature and scope of the audit and keeping under review the external auditor's quality control procedures (including proposed resourcing) and steps taken by the external auditor to respond to changes in regulatory and other requirements;
  - (iii) monitoring the planned programme of audits and ascertaining the reason for any change or delay in the programme;
- (e) assessing annually the independence and objectivity of the external auditor taking into account relevant law, regulation, the Ethical Standard and other professional requirements and the relationship with the auditor as a whole,

including and threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of non-audit services;

- (f) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
- (g) agreeing with the Board, as necessary, a policy on the employment of former employees of the Company's external auditor, taking into account the Ethical Standard and legal requirements, then monitoring the implementation of this policy;
- (h) assessing annually the qualifications and independence of the external auditor, their 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;
- (i) evaluating the risks to the quality and effectiveness of the financial reporting process;
- (j) meeting regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least twice a year, without management being present, to discuss their remit and any issues arising from the audit;
- (k) reviewing and ensuring that the external auditor's overall work plan, including planned levels of materiality, and proposed resources to execute the audit plan appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team;
- (l) reviewing the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - (i) a discussion of any major issues which arose during the audit;
  - (ii) key accounting and audit judgements;
  - (iii) levels of errors identified during the audit;
  - (iv) the effectiveness of the audit process; and
  - (v) the auditor's view of their interactions with senior management.
- (m) monitor the auditor's processes for maintaining independence, its compliance with relevant law, regulation, their professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
- (n) monitor the level of fees paid by the company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the

context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard; and

- (o) seeking to ensure co-ordination with the activities of the internal auditor;
- (p) review any representation letter(s) requested by the external auditor before they are signed by management;
- (q) review the management letter and management's response to the external auditor's findings and recommendations;
- (r) develop and recommend to the Board a policy and guidelines on the provision of non-audit services by the external auditor, including consideration of the following matters:
  - (i) threats to the independence and objectivity of the external auditor and any safeguards in place;
  - (ii) the nature of the non-audit services;
  - (iii) whether the external audit firm is the most suitable supplier of the non-audit service;
  - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - (v) the criteria governing compensation; and
- (s) at the end of the annual audit cycle, assess the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.

### 3.8 Reporting Responsibilities

- (a) The Committee Chair shall report formally to the Board on the Committee's proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how the Committee has discharged its responsibilities. This report shall include:
  - (i) the significant issues that the Committee considered in relation to the financial statements (required under paragraph 3.1) and how these were addressed;
  - (ii) an assessment of the effectiveness of the external audit process (required under paragraph 3.7(h), the approach taken to the appointment or re-appointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - (iii) any other issues on which the Board has requested the Committee's opinion.

- (b) The Committee shall compile a report on its activities to be included in the Company's Annual Report. The report should describe the work of the Committee, including:
  - (i) an explanation of how the Committee has addressed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
  - (ii) 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 external auditor;
  - (iii) an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements set out in the Code; and
  - (iv) a statement of compliance with the provisions of the CMA Order.
- (c) In compiling the reports referred to in 3.8(a) and (b) above, 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 and the inputs to the Board's viability statement.

#### **4. ENGAGEMENT WITH SHAREHOLDERS**

- 4.1 The Chair of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.
- 4.2 The Committee Chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

#### **5. REPORTING PROCEDURE**

- 5.1 The Chairman of the Committee shall make a verbal report to the next meeting of the Board of matters considered by the Committee.
- 5.2 The Chairman of the Committee shall make whatever recommendations to the Board the Chairman deems appropriate on any area within the Committee's remit where action or improvement is needed.
- 5.3 The Secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.
- 5.4 The Secretary shall circulate to all members of the Committee the draft minutes of the meetings of the Committee. After approval and signature by the Chairman, the Secretary shall make these minutes available to all other members of the Board and

other attendees (redacted, where necessary) on the request of the Chairman, unless in the opinion of the Chairman it would be inappropriate to do so.

## **6. TERMS OF REFERENCE**

- 6.1 The Committee shall, at least once a year, review its Terms of Reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **7. AUTHORITY**

The Committee is authorised to:

- 7.1 seek any information it requires from any employee of the Company (or any of its subsidiaries) in order to perform its duties, including calling an employee to be questioned at a meeting of the Committee. All employees are directed to co-operate with any request for information made by the Committee, including requests to attend meetings of the Committee;
- 7.2 obtain, at the Company's expense, outside legal or other professional advice on any matters within its Terms of Reference, as well as obtain other information which it deems necessary to help fulfil its obligations. The Committee may, if it thinks fit, secure the attendance at meetings of external advisers with relevant experience and expertise at the Company's expense; and
- 7.3 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. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.

## **8. OTHER MATTERS**

The Committee shall:

- 8.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat as required;
- 8.2 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;
- 8.3 give due consideration to laws and regulations, the provisions of the Code and published guidance, the requirements of the FCA's Listing, Prospectus and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate, including compliance with all applicable accounting standards;
- 8.4 be responsible for co-ordination of the internal and external auditors;
- 8.5 oversee any investigation of activities which are within its Terms of Reference;

- 8.6 make available these Terms of Reference, setting out the role and the authority delegated to it by the Board;
- 8.7 work and liaise as necessary with all other Board committees, ensuring interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees.

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