

## AUDIT COMMITTEE TERMS OF REFERENCE

### Membership

The Committee shall comprise at least 3 independent non-executive directors. At least one member should have recent and relevant financial experience with competence in accounting and/or auditing, and the Committee as a whole should have competence relevant to the sector in which the company operates. The quorum is the Committee Chairman and at least one other member, or any 3 members.

Andy Halford	Committee Chairman
Alison Brittain	
Andrew Fisher	
Miranda Curtis	

Amanda Mellor	Secretary
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### Meetings

The Committee meets at least 5 times per year. Only members of the Committee have the right to attend Committee meetings, however the external auditors, the Head of Internal Audit and Risk, the Chief Finance Officer and senior management of finance will normally be invited to attend meetings. Other directors may be invited to attend Committee meetings as necessary for particular topics on the agenda.

Outside of the formal meeting programme, the Committee Chairman, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the company's governance, including the Board Chairman, the Chief Executive, the Chief Finance Officer, the external audit lead partner and the Head of Internal Audit.

The Company Secretary maintains an inspection copy of the minutes, which are made available to all directors.

The Committee reports 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. The Board to be provided with an overview of the key matters discussed at the previous Audit Committee meeting. Minutes can also be issued to the Board.

The annual report contains a separate section describing the work of the Committee in discharging its responsibilities. The Committee Chairman attends the AGM prepared to respond to any shareholder questions on the Committee's activities.

### Role

The Committee assists the Board in fulfilling its oversight responsibilities. Its primary functions are:

- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them.
- to review the Company's internal controls and the systems of internal control and risk management.
- to maintain an appropriate relationship with the Company's auditors and to review the independence, objectivity, and effectiveness of the audit process, taking account of the relevant professional and regulatory requirements.

To perform his or her role effectively, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Company's business, operations and

risk. The Committee can obtain its own independent professional advice as necessary, at the expense of the company.

## **Terms of Reference**

### **Audit Process**

- 1 To provide an open avenue of communication between the external auditors, the internal auditors and the Board, meeting separately with both the internal and external auditors at least annually without management.
- 2 To keep under review the scope and results of the audit and its cost effectiveness and to report periodically to the Board on significant findings.
- 3 To meet, as required, with the external auditors, the internal auditors and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Audit Committee.

### **External Auditors**

- 4 To recommend to the Board, for annual shareholder approval, the appointment, re-appointment and removal of the external auditors, and to lead the process of putting the external audit contract out to tender at least every ten years. To annually approve the terms of engagement and the remuneration to be paid to the external auditors in respect of audit services provided.
- 5 To assess the external auditors qualifications, expertise, resources, effectiveness, independence and objectivity and to review the quality control procedures and steps taken by the auditors to respond to changes in regulatory or other requirements, taking into consideration relevant UK professional and regulatory requirements.
- 6 To review any representation letter(s) requested by the external auditor before they are signed by management, and review the management letter and management's response to the auditor's findings and recommendations.
- 7 To develop and implement policy on the engagement of the external auditor to supply non-audit services. To review the nature and extent of non-audit work undertaken by the external auditors. In some cases the nature of advice may make it more timely and cost-effective to select them. They may also be appointed for consultancy work but only after rigorous checks to confirm they are the best provider, including competitive tender and does not impair the external auditor's independence. To confirm that the Committee approval process for non-audit fees has operated for the period under review. To report 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.
- 8 To review with the Chief Finance Officer and the external auditors the scope and results of the external audit and any significant findings reported to the Committee in the management letter, receiving updates from management on action taken. This should include a discussion of any major issues which arose during the audit, the auditors explanation of how the risks to audit were addressed, key accounting and audit judgements, the auditor's view of their interactions with senior management, and levels of errors identified during the audit.

### **Internal Auditors**

- 9 To ensure that the Internal Audit and Risk department is adequately resourced and continues to have appropriate standing within the Company, has unrestricted scope and access to information to enable it to fulfil its mandate, and to keep under review its members' independence and objectivity.

- 10 To review with the external auditors and Head of Internal Audit and Risk, the internal audit programme and any significant findings, including fraud, illegal acts, deficiencies in internal control or similar issues and review management's responsiveness to the auditors' findings and recommendations.
- 11 To monitor and review the effectiveness of the internal audit and risk function at least annually
- 12 To approve the appointment or termination of appointment of the Head of Internal Audit, and ensure the internal auditor has direct access to the Board Chairman and to the Committee Chairman, providing independence from the executive and accountability to the Committee.

### **Internal Control and Risk Management**

- 13 To review the Group's system of internal control, including financial, operational, compliance controls and risk management (including the effectiveness thereof), prior to endorsement by the Board. To monitor and review the effectiveness of the Company's internal audit function.
- 14 To review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statements.
- 15 To review the corporate risk management procedures together with the internal and external auditors and executive management.
- 16 To review the effectiveness of arrangements by which employees may, in confidence, raise concerns about possible improprieties relating to financial or other matters, ensuring that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
- 17 To review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.

### **Financial Reporting**

- 18 To monitor the integrity of the financial statements of the Company, and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgements contained in them.
- 19 To review any changes in accounting principles, to determine the appropriateness, not just the acceptability, of accounting principles and financial disclosure practices, and the degree of aggressiveness or conservatism in accounting principles and underlying estimates.
- 20 Where requested by the Board, provide advice on whether the Annual report, taken as a whole, is fair balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- 21 To review areas involving significant judgement, unusual transactions, estimation or uncertainty in the Group's financial results.
- 22 Where requested by the Board, to review the assessment of the company's longer term viability, prior to board approval of the viability statement for inclusion in the Annual Report.
- 23 To review the Group Treasury policy at least biennially, or earlier as required.

### **General**

- 24 To investigate any matter brought to its attention, within the scope of its duties, with the power to obtain independent professional advice.

- 25 To review and update its terms of reference annually, recommending any changes to the Board, to evaluate its own performance (in addition to the periodic external effectiveness review) on a regular basis and to report to the Board on how it has discharged its responsibilities.