

## Audit Committee – Terms of Reference

### 1. Membership and attendance

- The Committee shall be appointed by the Board, on the recommendation of the Succession and Nominations Committee in consultation with the Chairman of the Audit Committee, and shall comprise a chairman and at least two other members.
- All members of the Committee shall be independent Non-Executive Directors, with at least one member having recent, relevant financial experience ideally with a professional qualification from one of the professional accounting bodies. The Chairman of the Board shall not be a member of the Committee.
- The Committee as a whole shall be constituted to ensure that it has competence relevant to the sector in which the Company operates.
- Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence.
- The Board, on the recommendation of the Succession and Nominations Committee, shall appoint the Committee's chairman. In the absence of the Committee's chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
- The Chief Financial Officer, Director of Assurance and Risk and the Appointed Auditor from the Company's external auditors shall be invited and will normally attend meetings. Other directors, senior financial and governance managers and members of the Company's external auditors may also be requested to attend as judged appropriate by the chairman of the Committee. However, only members of the Committee have the right to attend.
- The Committee shall meet the Company's external auditors without any executive management or directors being present, at least once a year and may also call for meetings with the external auditors, without the presence of any executive director at such other times as they think necessary. The Committee should also, at least once a year, meet the Director of Assurance and Risk without any executive management or director being present.

### 2. Secretary

- The Company Secretary or his/her 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 to issues.

### 3. Quorum

- The quorum necessary for the transaction of business shall be two members present in person, or linked by telephone or video conference facilities (preferably including one of those with recent and relevant financial experience). A duly convened meeting of the 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 Committee.
- A resolution in writing signed by all the Committee members for the time being shall be as valid and effective as if the same had been passed at a duly convened meeting of the Committee and may consist of two or more documents in like form each signed by one or more members of the Committee.

### 4. Frequency of Meetings

- The Committee shall meet at least four times a year and at such other times as the chairman of the Committee shall require.
- Meetings will be arranged to tie in with the publication of the Company's financial reporting cycle, particularly with the preparation and publication of the Company's Half Yearly and Annual Preliminary Results announcements.

- 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 Chief Financial Officer, the External Audit Lead Partner, the Company Secretary and the Director of Assurance and Risk.

## **5. Notice of Meetings**

- Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any member thereof.
- Meetings can be requested by the external auditors or the Director of Assurance and Risk if they consider this is necessary.
- 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, any other person required to attend and all other Non-Executive Directors, no fewer than four working days prior to the date of the meeting. Supporting papers shall be sent to Committee members and other attendees as appropriate, at the same time.

## **6. Minutes of Meetings**

- The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- The Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- Minutes of Committee meetings shall be circulated to all members of the Committee and to the Chairman and all other members of the Board, unless it would be inappropriate to do so.

## **7. Annual General Meeting**

- The Chairman of the Committee shall attend the Annual General Meeting (AGM) and be prepared to respond to any shareholder questions on the Committee's activities.

## **8. Duties**

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

- The Committee shall assist the Board in meeting the internal control and risk management provisions of the UK Corporate Governance Code ('the Code'). In particular the Committee shall:-

#### **Internal Control**

- Monitor and at least annually review the effectiveness of the Company's internal controls framework, covering all material controls including financial, operational and compliance controls
- Review the Company's procedures for handling allegations from whistleblowers and similar matters reported under the Group's Code of Conduct.
- Review the Company's procedures concerning the prevention and detection of fraud and financial crime

#### **Risk and risk management**

- Receive reports on current emerging risks;
- Review and, in conjunction with the Board, approve the Group's risk appetite;
- Advise the Board on their assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity

- Monitor the effectiveness of the Group's risk management processes
- Review the risks associated with the tax compliance and tax planning initiatives of the Company;
- Request risk owners to attend and present to the Committee as and when appropriate.

### **Group Internal Audit Function**

- The Committee shall at least annually consider and approve the terms of reference of the Group Internal Audit Function and the annual internal audit plan. The Committee shall also be advised of actual performance against the plan and the reasons for any change or delay in the programme which shall be approved by the Committee.
- The Committee shall formally approve any appointment or termination of appointment to the role of Director of Assurance and Risk.
- In respect of Group Internal Audit, the Audit Committee will:
  - monitor the effectiveness of the Group Internal Audit's activities;
  - ensure that the Internal Audit team has the appropriate resources to carry out its role and has access to information and the freedom to access information to enable it to fulfil its mandate and is equipped to perform in accordance with appropriate professional standards for internal auditors;
  - review reports, at its regular meetings, issued by the department in relation to its internal audit remit;
  - the Director of Assurance and Risk, in respect of his Internal Audit responsibilities, shall be given the right of direct access to the chairman of the Committee and is accountable to the Committee; and
  - the Committee shall review and monitor management's responsiveness to the Internal Audit's findings and recommendations.

### **External Audit**

The Committee shall:-

- 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.
- Subject to the requirements of legislation and any transitional provisions following the introduction of such legislation or regulation<sup>(1)</sup>, 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 external 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 reasonably necessary to information and individuals during the duration of the tendering process.
- Subject to the requirements of legislation and any transitional provisions following the introduction of such legislation or regulation, ensure that at least once every twenty years the audit firm is changed following a competitive tender process; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is reasonably necessary to information and individuals during the duration of the tendering process.
- If an external auditor resigns, investigate the issues leading to this and decide whether any action is required.
- Subject to the requirements of legislation or other regulation<sup>(1)</sup> oversee the relationship with the external auditor including (but not limited to):
  - Recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;

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<sup>1</sup> Including but not limited to the Competition and Markets Authority's Final Order: The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014

- Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- Assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
- Being satisfied that there are no relationships (such as family, employment, investment, financial or business) which could adversely affect the external auditor's independence and objectivity;
- Agreeing with the Board a policy on the employment of former employees of the Company's external auditor, and monitoring the implementation of this policy;
- Monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
- Assessing annually the qualifications, expertise and resources of the external auditor, the effectiveness of the audit process and review the effectiveness of the external auditor, which shall include a report from the external auditor on their own internal quality procedures;
- Seeking to ensure co-ordination with activities of the Group Internal Audit function; and
- 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 the external auditor from the market in that evaluation.
- 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 external auditor's remit and any issues arising from the audit.
- 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.
- 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;
  - Key accounting and audit judgements;
  - The auditor's explanation of how the risks to audit quality were addressed
  - Levels of errors identified during the audit; and
  - The effectiveness of the audit process.
- Develop and implement policy on the supply of non-audit services by the external auditor to avoid any threat to external auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

The Committee shall also:

- Review any representation letter(s) requested by the external auditor before they are signed by management;
- Review the management letter and management's response to the external auditor's finding and recommendations; and
- Consider the extent of reliance placed by the external auditor on internal audit.

### **Financial Statements**

- The Committee shall monitor the integrity of the financial statements of the Company including its Annual and Half yearly reports and any other formal announcements relating to its financial performance and report to the Board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the external auditor.
- The Committee shall keep under review and challenge where necessary the consistency of accounting policies both on a year to year basis and across the Group.

- The Committee shall receive a report from the Company's external auditors prior to the publication or filing of the Company's financial statements. In conjunction with this report, the Committee shall review and challenge where necessary the Company's financial statements taking into account:
  - critical accounting policies used;
  - decisions requiring a major element of judgement;
  - the extent to which the financial statements are affected by any significant or unusual transactions, especially where different approaches are possible;
  - the clarity of disclosures, including any observations from the Disclosure Committee with regard to verification activities;
  - significant adjustments resulting from the audit;
  - any material written communication between the external auditors and the management of the Company;
  - the going concern assumption;
  - compliance with accounting standards;
  - compliance with stock exchange, UK Listing Authority and other legal and regulatory requirements; and

### **Reporting Responsibilities**

- The Committee or its chairman shall meet formally with the Board at least once a year to discuss such matters as the Annual Report and the relationship with the external auditors.
- The Committee Chairman shall report formally to the Board 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: -
  - The significant issues that it considered in relation to the financial statements and how they were addressed;
  - The outcome of the Committee's work on the going concern and viability statements;
  - Its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
  - Any other issues on which the Board has requested the Committee's opinion.
- In the light of its other duties, the Committee shall make whatever recommendations to the Board it deems appropriate.
- The Committee has no executive powers with regard to its recommendations and does not relieve the Directors of their responsibilities for financial reporting and corporate control.
- The Committee shall compile a report 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 Code.
- In the compiling these reports, 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.

### **Other Matters**

- The Committee shall give due consideration to the requirements of the UK Listing Authority.
- The Committee shall oversee any investigation of activities which are within its terms of reference and act as a court of the last resort.
- The Committee should, annually, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness.

- The Committee shall satisfy itself as to the expertise, resources and experience of the Finance Function.

## **9. Authority**

The Committee is authorised:

- to seek any information it requires from any employee of the Company (all of whom are directed to co-operate fully with any request made by the Committee) in order to perform its duties;
- to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference;
- to call any member of staff to be questioned at a meeting of the Committee as and when required;
- to institute special projects or investigations on any matter within the Committee's terms of reference as it sees fit and to consider whether from time to time any special remit should be referred to the Company's external auditors or to any other external body; and
- To ensure co-ordination between the Group Internal Audit Function and external auditors.

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