

## Terms of Reference of the Audit Committee

### Membership

Members of the Audit Committee shall be appointed by the Board on the recommendation of the Nomination Committee, if a Nomination Committee is appointed.

The Audit Committee must comprise of a minimum of 2 members, including at least one non-executive director who is considered independent (such independent non-executive director may also be the chairperson of the Audit Committee).

One of the members of the Audit Committee shall be a non-executive Director with recent and relevant financial experience.

All members should have sufficient competence to understand, analyse and, when necessary, challenge the management accounts and draft public financial statements.

Only members of the Audit Committee shall have the right to attend Audit Committee meetings. However, other individuals, such as the Chief Executive Officer, the Finance Director and other representatives from the finance, risk and compliance functions of the Company may be invited to attend all or part of any meeting.

The external auditors will be invited to attend meetings of the Audit Committee on a regular basis.

Membership of the Audit Committee can be varied at any time by a majority resolution of the existing members of the Audit Committee provided that the provisions of paragraph 2 are observed.

Appointments to the Audit Committee shall be for a period of up to three years, which may be extended for two further three-year periods.

### Chairman

The Chairman of the Company may be appointed as a member of the Audit Committee but may not be chairman of the Audit Committee.

The Board shall appoint the chairman of the Audit Committee who shall be an independent non-executive Director. The chairman has the responsibility of liaising with the Board.

The chairman shall chair the meetings of the Audit Committee.

In the absence of the chairman of the Audit Committee, the remaining members present shall elect one of themselves to chair the meetings of the Audit Committee.

### Secretary

The Company Secretary (or his/her delegate) or such other person as the Board may determine from time to time shall be the secretary of the Audit Committee.

The secretary of the Audit Committee or his/her delegate shall attend meetings of the Audit Committee to take minutes and will ensure that the members of the Audit Committee receive information and papers in a timely manner to enable full and proper consideration to be given to issues.

In the absence of the secretary of the Audit Committee, the members present at a meeting of the Audit Committee shall elect another person to act as the secretary for the purposes of that meeting.

### **Quorum**

The quorum necessary for the transaction of business of the Audit Committee shall be 2 members, both of whom shall be independent non-executive Directors.

The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The relevant member of the Audit Committee shall not be counted towards the quorum and he/she must abstain from voting on any resolution of the Audit Committee in which he/she and/or his/her associates have a material interest.

A duly convened meeting of the Audit 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 Audit Committee.

### **Frequency of meetings**

The Audit Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle, and at such other times as the chairman of the Audit Committee shall require.

Any member of the Audit Committee, the internal auditors or the external auditors may request a meeting if they consider that one is necessary.

Meetings of the Audit Committee will be arranged to the extent reasonably possible to tie in with the publication of the Company's financial statements.

Outside of the formal meeting programme, the chairman of the Audit Committee, and to a lesser extent the other members of the Audit Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Company (to the extent that he/she is not already a member of the Audit Committee), the Chief Executive Officer, the Finance Director and the external audit partner.

### **Attendance at meetings**

Members of the Audit Committee may attend meetings of the Audit Committee either in person or through telephonic and/or electronic means of communication.

Should any member of the Audit Committee wish to attend a meeting through telephonic and/or electronic communications, prior arrangements shall be made with the secretary of the Audit Committee.

Other than members of the Audit Committee, the Finance Director, the head of internal audit (if any) and a representative of the external auditors shall normally attend meetings along with the members of the Audit Committee.

At least once a year the Audit Committee shall consider meeting with the external auditors without any executive member of the Board (or other members of the management team) being present.

### **Notice of meetings**

Meetings of the Audit Committee shall be convened by the secretary of the Audit Committee at the request of any of its members or at the request of the chairman of the Audit Committee.

Unless otherwise agreed by the Audit Committee, 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 Audit Committee, and to any other person required to attend within a reasonable time prior to the date of the meeting. Supporting papers shall be sent to Audit Committee members and to other attendees as appropriate, within a reasonable time prior to the date of the meeting.

Any member of the Audit Committee shall be entitled, by notice to the secretary of the Audit Committee, to include other matters relevant to the functions of the Audit Committee in the agenda of an Audit Committee meeting.

### **Voting**

Each member of the Audit Committee shall have one vote which may be cast on matters considered at a meeting of the Audit Committee. Votes can only be cast by members attending a meeting of the Audit Committee.

Save where he has a personal interest, the chairman of the Audit Committee will have a casting vote.

### **Minutes of meetings**

The secretary of the Audit Committee (or his/her delegate) in attendance at the meetings of the Audit Committee shall minute in sufficient detail all proceedings and resolutions of all such meetings, including the names of those present and in attendance. The minutes should also include any concerns raised by any member of the Audit Committee and/or dissenting views expressed and any conflicts of interest.

Draft and final versions of minutes of the Audit meetings shall be sent to all Audit Committee members for their comments and records respectively, in both cases within a reasonable time after the meeting. Once they are agreed, the secretary of the Audit Committee shall circulate the minutes, and reports of the Audit Committee, to all members of the Audit Committee and to all members of the Board.

Minutes of the Audit Committee meetings shall be kept by the secretary of the Audit Committee and shall be available for inspection by any member of the Audit Committee or Director at any reasonable time on reasonable notice.

### **Annual General Meeting**

The chairman of the Audit Committee shall attend the annual general meeting of the Company and be prepared to respond to any Shareholder questions on the Audit Committee's activities.

The Audit Committee shall produce an annual report to be included in a separate section of the Directors' report to the annual report describing the Audit Committee's role and detailing its activities and how independent oversight over both management and external auditors has been exercised.

### **Duties**

#### **The Audit Committee shall be responsible for:**

- monitoring in discussion with the auditors the integrity of the financial statements of the Company including its annual and interim accounts and reports, preliminary results announcements, and any other formal announcements relating to the Group's financial performance, reviewing significant financial reporting issues and judgements contained in them having regard to the matters communicated to it by the auditor;
- reviewing summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents such as announcements of price sensitive information;
- reviewing and challenging where necessary:
- the consistency of, any changes to, and the application of significant accounting policies on a year on year basis;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as business review/operating and financial review, the strategic report and any corporate governance statement (insofar as it relates to the audit and risk management).
- reviewing the effectiveness of the Company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent Directors, or by the Board itself, to review the Company's internal control and risk management systems and review and approve the statements to be included in the Annual Report concerning internal controls and risk management;
- monitoring and reviewing the effectiveness of the Company's internal audit function in the context of the overall risk management system including assessing the operation, effectiveness and integrity of the internal audit plan and ensuring that it is adequately

resourced and has appropriate standing within the Company, reviewing all reports from the internal auditors (and management's response) and meeting with the head of internal audit without management being present at least once a year to discuss their remit and any issues and, where there is no internal audit function, considering annually whether there is a need for an internal audit function and making a recommendation to the Board;

- discussing whether the Audit Committee should recommend that the financial statements and accompanying reports should be approved by the Board in the Board meeting following the Audit Committee meeting and, if so, whether that approval should be granted subject to any matters discussed by the Audit Committee;
- (where relevant) reviewing the annual financial statements of the pension funds where not reviewed by the Board as a whole;
- reviewing 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 or other matters. The Audit Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. The Audit Committee shall review the Company's procedures for detecting fraud and the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- making recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re- appointment and removal of the external auditor and approving the remuneration and terms of engagement of the external auditor and any matters relating to their resignation or dismissal;
- reviewing and monitoring the external auditor's independence and objectivity as well as their qualifications, expertise and resources and the effectiveness of the audit process, taking into consideration relevant UK and other relevant professional and regulatory requirements;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and reporting 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;
- reviewing and approving the annual audit plan with the external auditor and ensuring that it is consistent with the scope of the audit engagement and the effectiveness of the audit;
- reviewing the findings of the audit with the external auditor which shall include but not be limited to discussing major issues which arose on the audit, any accounting and audit judgements, levels of errors identified during the audit and the effectiveness of the audit;
- reviewing any representation letters and/or responses from the management before being given to the external auditor;
- meeting with the auditors at least twice a year, once at the planning stage, where the nature and scope of the audit will be considered, and once post audit at the reporting stage, and shall ensure that any auditor's management letters and management's responses are reviewed;

- discussing with the external auditor such issues as compliance with accounting standards and any proposals which the external auditor has made regarding the Company's internal auditing standards;
- to meet with the Chief Executive Officer (or his representative) to hear a report on compliance with ethics and bribery act requirements and the Company's systems and controls for the prevention of bribery and to review the ongoing compliance policies; and
- reviewing the management of financial matters and focus upon the freedom allowed to internal auditors.

### **Reporting responsibilities**

The chairman of the Audit Committee shall report formally to the Board on proceedings after each meeting on all matters within its duties and responsibilities and how it has discharged its responsibilities.

The Audit Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed. However, the minutes detailing recommendations of the Audit Committee must be approved by the Board before they can be implemented.

The Audit Committee shall compile a report to Shareholders on its role and activities to be included in the Company's Corporate Governance Report.

### **Other**

The Audit Committee shall have access to sufficient resources in order to carry out its functions and discharge its duties. In the event that the Audit Committee determines that it has insufficient resources, it may make a request for additional resources to the Chief Executive Officer. If the request for additional resources is denied, the Audit Committee may, if it chooses, make a request to the Board. The Board shall convene a Board meeting as soon as reasonably practicable to consider the request.

All members of the Audit Committee shall have access to the advice and services of the secretary of the Audit Committee with a view to ensuring that procedures of the Audit Committee and all applicable rules and regulations are followed.

In the event that the Audit Committee or any member of the Audit Committee requires access to independent professional advice in connection with its/his/her duties, a request may be made to the Company. All such requests shall be processed in accordance with any pre-defined procedures for seeking independent professional advice at the Company's expense.

Every member of the Audit Committee shall give sufficient time and attention to his/her duties as a member of the Audit Committee. He/she shall give the Company the benefit of his skills and expertise through regular attendance and active participation.

The Audit Committee shall be provided with appropriate and timely training, both in the form of an induction process for new members and on an on-going basis for all members.

The Audit Committee shall, at least once a year, review its own performance, 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.

The Audit Committee shall give due consideration to laws and regulations relevant to the Group and in particular the provisions of the UK Corporate Governance Code, the QCA Code and associated guidance, and the AIM Rules.

**The Audit Committee shall:**

- keep under review the Company's procedures for handling allegations from whistleblowers;
- address any other matters relating to its duties referred to the Audit Committee by the Board;
- ensure that its terms of reference are available on the Company's website and include an explanation of its role and the authority delegated to it by the Board; and
- while carrying out its duties, have regard to their duties as Directors of the Company, including under all applicable laws and regulations, the UK Corporate Governance Code and the provisions of the QCA Code and associated guidance.

**Authority**

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it reasonably requires from any employee of the Company in order to perform its duties pursuant to these terms of reference and all employees are directed to co-operate with any reasonable request made by the Audit Committee. The Audit Committee has the right to publish in the Company's annual report details of any issues that cannot be resolved between the Audit Committee and the board.