

THE AUDIT COMMITTEE

TERMS OF REFERENCE

Reference to “the Committee” shall mean the Audit Committee.

Reference to “the Board” shall mean the Board of Directors.

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 2 members, each of whom is an independent non-executive director.
- 1.2 All members of the Committee shall be independent non-executive directors at least one of whom shall have recent and relevant financial experience. 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 such as the Chairman of the Board, Chief Executive, Finance Director, other directors and representatives from the finance function and internal audit may be invited to attend all or part of any meeting as and when appropriate.
- 1.4 The external auditors will be invited to attend meetings of the Committee on a regular basis as determined by the Audit Committee Chairman.
- 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 remains independent.
- 1.6 The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 1.7 Care should be taken by the Committee to minimise risk of any conflict of interest that might be seen to give rise to an unacceptable influence.

2. Secretary

- 2.1. The Company Secretary or their nominee shall act as the Secretary of the Committee.

3. Quorum

- 3.1. The quorum necessary for the transaction of business shall be 2 members. 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.

4. Frequency of Meetings

- 4.1. The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

5. Notice of Meetings

- 5.1. Meetings of the Committee shall be summoned 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, any other person required to attend and all other non-executive directors, no later than 5 working 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. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3. Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, to all members of the Board.

7. Duties

The Committee shall:

- 7.1. 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 including:
 - 7.1.1. the review, and challenge where necessary of, the actions and judgements of management in relation to: the company's financial statements (and material information presented with them); operating and financial review; interim reports, preliminary announcements and related formal statements before submission to the Board.
 - 7.1.2. the Committee shall pay particular attention to: significant accounting policies and practices, and any changes in them; significant financial reporting issues, estimates and decisions requiring a major element of judgement; the extent to which the financial statements are affected by any significant or unusual transactions in the year and how they are disclosed; the clarity and completeness of disclosures; significant adjustments resulting from the audit; the going concern assumption; compliance with accounting standards; compliance with regulatory and legal requirements; and
 - 7.1.3. reviewing the company's statement on internal control and risk management prior to endorsement by the Board.
- 7.2. review the Company's internal financial controls and internal control and risk management systems including:

- 7.2.1. the Company's arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters and by which the Company ensures appropriate investigation and follow-up action;
- 7.2.2. the integrity of the Company's internal financial controls, including management's and the internal auditor's reports on the effectiveness of systems of internal financial control, financial reporting and risk management;
- 7.2.3. the steps taken to ensure that new products, operations and activities are integrated into the framework and philosophy of internal control;
- 7.2.4. the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks and the related internal control systems; and
- 7.2.5. the statements included in the annual report on internal control and management of risk.
- 7.3. monitor and review internal audit including:
 - 7.3.1. the effectiveness of the arrangements for internal audit; the appointment and removal of the person and firm responsible of the operation of the Internal Audit function. This person should have unfettered access to the Audit Committee and its Chairman.
 - 7.3.2. internal audit's remit and programme and ensure that it is adequately resourced and has appropriate standing within the Company; and
 - 7.3.3. management's response to major internal audit recommendations.
- 7.4. establish and oversee the Company's relationships with the external auditor including:
 - 7.4.1. the appointment, reappointment and removal of the external auditor;
 - 7.4.2. the terms of engagement and the remuneration to be paid to the external auditor in respect of audit services provided, recommending the audit fee to the Board;
 - 7.4.3. the qualification, expertise and resources of the external auditors annually;
 - 7.4.4. the independence and objectivity of the external auditor annually;
 - 7.4.5. the external audit firm's compliance with United Kingdom ethical guidance and its policies and procedures for maintaining independence and monitoring compliance with relevant requirements;
 - 7.4.6. the Company's policy on the provision of non-audit services by the auditor, taking into account relevant ethical guidance, and ensure that the provision of such services does not impair the external auditor's independence or objectivity, taking into account the criteria which govern the compensation of the individuals performing the external audit;

- 7.4.7. the explanation in the annual report of how auditor objectivity and independence are safeguarded;
- 7.4.8. the Company's policy for the employment of former employees of the external auditor;
- 7.4.9. the nature and scope of the audit in order to ensure that appropriate plans are in place at the start of each annual cycle;
- 7.4.10. the findings of the external auditors work, including any major issues, resolved and unresolved; compliance with accounting standards; key accounting and audit judgements; levels of errors identified; and obtaining explanations for unadjusted errors;
- 7.4.11. meeting the external auditors without management being present
- 7.4.12. a review of the audit representation letters before signature by management;
- 7.4.13. the assessment, at the end of the annual external audit cycle, the effectiveness of the external audit process, taking into account relevant UK professional and regulatory requirements;
- 7.4.14. the content of the external auditor's management letter and other, major internal control recommendations and management's responses to the findings and recommendations;
- 7.4.15. investigation of any issues and consideration of appropriate actions in the event that the external auditor resigns; the development and application of a formal process on reviewing the existing audit contract and the criteria and arrangements for re-tendering that contract;
- 7.5. oversee other matters including:
 - 7.5.1. the arrangements and where relevant the work and outputs of other external advisors appointed in areas that fall within or overlap the Committee's responsibilities; and
 - 7.5.2. other topics, as defined by the Board

8. Reporting

- 8.1. The Committee shall report to the Board, identifying any matters in respect of which it considers that action or improvement is needed or when it is not satisfied with any aspect of the proposed financial reporting and making recommendations as to the steps to be taken.
- 8.2. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board, and the Chairman of the Committee shall, as a minimum, attend the Board meeting at which the accounts are approved.
- 8.3. The Committee shall annually review its terms of reference and its own effectiveness and recommend any necessary changes to the Board

- 8.4. The role and responsibilities of the Committee and the actions taken by the Committee to discharge those responsibilities shall be disclosed in the annual report and accounts
- 8.5. The Chairman of the Committee shall attend the AGM and shall answer questions, through the Chairman of the Board, on the Committee's activities and their responsibilities.

9. **Authority**

The Committee is authorised:

- 9.1. to seek any information it requires from any employee of the company in order to perform its duties;
- 9.2. to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 9.3. to call any employee to be questioned at a meeting of the Committee as and when required.

THE AUDIT COMMITTEE

MEMBERS

Eric Anstee (chairman)
Andrew Robb
Steve Rowley
Roger Wood
Nick Wiles