

## **TERMS OF REFERENCE FOR THE AUDIT COMMITTEE**

### **1. CONSTITUTION**

The Committee has been established by resolution of the board of directors of the Company (the “**Board**”) and is to be known as the Audit Committee.

### **2. MEMBERSHIP**

- 2.1 The members of the Audit Committee shall be appointed by the Board from amongst the directors of the Company and shall consist of at least three members, all of whom are independent non-executive directors. The chairman of the Company shall not be a member of the Audit Committee.
- 2.2 At least one member of the Audit Committee shall have recent and relevant financial experience and the members as a whole shall have competence relevant to the sector(s) in which the Company operates.
- 2.3 Audit Committee members shall ensure they undertake such induction and continuing training as is necessary to enable them to fulfil their function.
- 2.4 The Board shall appoint one of the members of the Audit Committee as its chairman (the “**Chairman**”) and shall decide his or her period of office.
- 2.5 The Board shall regularly review the membership of the Audit Committee to ensure that membership is refreshed and undue reliance is not placed on particular individuals as regards membership of the Audit Committee and other Board committees.
- 2.6 The Audit Committee may invite the chairman and the chief executive of the Company or any other person to advise and/or to join meetings of the Audit Committee when required notwithstanding that they are not members of the Audit Committee.

### **3. QUORUM**

A quorum shall be two members. 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.

### **4. ATTENDANCE AT MEETINGS**

- 4.1 No one other than the Audit Committee Chairman and other members is entitled to be present or vote at a meeting of the Audit Committee.
- 4.2 The chairman of the Company, chief executive, finance director, group director of risk and internal audit and a representative of the external auditor may be called upon or shall be able to speak at any meeting of the Audit Committee by prior arrangement with the Chairman.

- 4.3 There should be at least one meeting, or part of a meeting, each year which the external auditor attends without management present.
- 4.4 There should be at least one meeting, or part of a meeting, each year which the group director of risk and internal audit attends without management present.

## **5. SECRETARY**

The Company Secretary or his or her nominee shall act as the secretary of the Audit Committee and shall keep a record of the membership of and the dates of any changes to the membership of the Audit Committee.

## **6. FREQUENCY OF MEETINGS**

- 6.1 Meetings shall be held at such times as the Audit Committee deems appropriate, and in any event shall be held not less than four times a year. Where appropriate, meetings should coincide with key dates in the company's financial reporting cycle.
- 6.2 External auditors or internal auditors may request a meeting if they consider that one is necessary.

## **7. PROCEEDINGS**

- 7.1 Unless varied by these terms of reference, meetings and proceedings of the Audit Committee will be governed by the Company's articles of association regarding the meetings and proceedings of directors.
- 7.2 Meetings of the Audit Committee shall be summoned by the Secretary of the Audit Committee at the request of the Chairman or any member thereof or at the request of the external auditor or the head of internal audit if they consider it necessary.
- 7.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be sent to each member of the Audit Committee and any other person required to attend not later than 48 hours prior to the date of the meeting.
- 7.4 The Secretary to the Audit Committee or his or her deputy shall record the proceedings and resolutions of meetings of the Audit Committee and shall circulate the minutes of such meetings to all members of the Audit Committee and, if the Chairman so decides, to all members of the Board.
- 7.5 In the absence of the Audit Committee Chairman and/or an appointed deputy, those members present shall elect one of their number to chair the meeting.

## **8. AUTHORITY**

- 8.1 The Audit Committee is authorised by the Board at the expense of the Company to investigate any matter within its terms of reference. It is authorised to seek

any information that it requires from any employee in order to perform its duties and all employees are directed to cooperate with any requests made by the Audit Committee.

- 8.2 The Audit Committee is authorised by the Board at the expense of the Company to obtain external professional advice and to secure the attendance of third parties with relevant experience and expertise at meetings of the Audit Committee if it considers this necessary.
- 8.3 These terms of reference may be amended from time to time as required, subject to approval by the Board.

## **9. DUTIES**

The responsibilities of the Audit Committee shall be to:

### **External audit**

- 9.1.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the Company's external auditor, taking account, amongst other things, of the provisions relating to the tendering of the Company's external audit contract contained in the UK Corporate Governance Code and in the various instruments implementing Directive 2006/43/EC in the UK;
- 9.1.2 review and monitor the independence of the external auditor, ensuring that key partners are rotated at appropriate intervals;
- 9.1.3 develop and recommend to the Board a policy on the provision by the external auditor of non-audit services, to ensure that the provision of such services does not impair the external auditor's independence or objectivity, taking into account relevant ethical guidance regarding the provision of such services; monitor the external auditor's compliance with ethical standards for auditors and other related regulatory requirements; and report on the same to the Board;
- 9.1.4 ensure that proper disclosure is made in the annual report of how the Audit Committee's policy in relation to non-audit fees paid to auditors adequately safeguards the independence of the auditor and that proper disclosure is made of all fees paid to the external auditor;
- 9.1.5 discuss with the external auditor, before the audit commences, the nature and scope of the audit and to review the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
- 9.1.6 oversee the process for selecting a new external auditor and, if an auditor resigns, investigate the issues leading to this and decide whether any action is required;

- 9.1.7 review the external auditor's management letter and any major recommendations of the external auditor and to consider management's response; and
- 9.1.8 approve the external auditor's terms of engagement, including any engagement letter issued at the start of each audit, the scope of the audit and the audit fee.

### **Internal audit**

- 9.1.9 monitor and review the effectiveness of the Company's internal audit function;
- 9.1.10 review and approve the whistleblowing policy, anti-bribery and corruption policy and the Group Internal Audit remit and annual plan;
- 9.1.11 review the internal audit programme and ensure that the internal audit function is adequately resourced and has appropriate standing within the company;
- 9.1.12 review and monitor the progress of the internal audit programme to ensure delivery against the programme and review and approve any changes to the programme;
- 9.1.13 consider management's response to any major internal audit recommendations, where "major" is defined as:
  - (A) Failure to comply with laws, regulations, Group policies or contractual requirements resulting in material legal/financial costs and penalties or material reputational damage (eg national news coverage)
  - (B) Potential for major business disruption
  - (C) Material balance sheet impairment or financial misreporting
  - (D) Any cases of fraud or corruption

For material financial issues the benchmark for reporting is £1m.

- 9.1.14 approve the appointment or dismissal of the head of internal audit; and
- 9.1.15 review reports addressed to the Audit Committee from the head of internal audit.

### **Risk management**

- 9.1.14 review the company's procedures for handling allegations from whistleblowers in order to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;
- 9.1.15 review management's and the internal auditor's reports on the effectiveness of systems for internal financial control and financial reporting;

9.1.16 review the Company's annual statements on its systems of risk management and internal control; its risk assessment and management process; and the description of its principal risks and uncertainties prior to endorsement by the Board, and in particular review:

- (A) the procedures for identifying financial risks and controlling their impact on the Company having regard, in particular, to any significant failings or weaknesses in internal financial control that have been reported;
- (B) the Company's compliance with policies and procedures established by management for identifying and controlling the impact of financial, reputational, commercial, operational, compliance and other risks having regard, in particular, to any significant failings or weaknesses in internal control that have been reported;
- (C) the actions taken to remedy any significant failings or weaknesses in internal controls, including their timeliness;
- (D) the Company's policies and procedures for preventing or detecting fraud;
- (E) the Company's policies for ensuring that the Company complies with relevant regulatory and legal requirements; and
- (F) the operational effectiveness of these policies and procedures;

9.1.17 review co-ordination between the risk management function, the internal audit function and the external auditors;

9.1.18 review significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees or the Company;

9.1.19 review the controls over significant financial risks;

### **Financial reporting**

9.1.21 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, reviewing significant financial reporting issues and judgements, including going concern assumptions, which they contain. In particular, the Audit Committee shall review and challenge where necessary:

- (A) The consistency of, and any changes to, accounting policies both on a year-on-year basis and across the Company/group;
- (B) The methods used to account for significant or unusual transactions where different approaches are possible;

- (C) Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (D) The clarity 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 the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);

9.1.22 where requested by the Board, provide advice on:

- (A) whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- (B) how, taking into account the Company's position and principal risks, the Company's prospects have been assessed, over what period and why the period is regarded as appropriate and whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.

9.1.23 review the interim management statements of the Company where such statements contain particularly contentious or difficult issues (which it shall be the duty of the chief financial officer to bring to the Audit Committee's attention); and

9.1.24 review the annual financial statements of the Company's pension fund(s) where not reviewed by the Board as a whole.

#### **Other**

9.1.25 consider other topics, as referred to it by the Board.

### **10. REPORTING PROCEDURES**

10.1 The Chairman of the Audit Committee or, as a minimum, another member of the Audit Committee, shall provide the Board a short oral summary on the key findings and issues considered by the Audit Committee since the last Board meeting

10.2 The Chairman of the Audit Committee or, as a minimum, another member of the Audit Committee, shall attend the Board meeting at which the accounts are approved.

- 10.3 Where, following its review, the Audit Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.
- 10.4 The Audit Committee members shall conduct an annual review of their work and these terms of reference and make recommendations to the Board about any necessary changes and the committee shall report to the Board on how it has discharged its responsibilities.
- 10.5 The Audit Committee's duties and activities during the year shall be disclosed in a separate section of the annual report which should include:
- (A) the significant issues the committee considered in relation to the financial statements and how those issues were addressed;
  - (B) an explanation of how the committee assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor and information on the length of tenure of the current audit firm and when the tender was last conducted; and
  - (C) if the external auditor provides non-audit services, an explanation of how auditor objectivity is safeguarded.

## **11. ANNUAL GENERAL MEETING**

The Chairman of the Audit Committee shall be available at the Annual General Meeting to answer questions on the Audit Committee's activities and its responsibilities. He or she should also ensure that the Company maintains good contact with shareholders about audit matters in the same way as for other matters.

January 2018