

AUDIT COMMITTEE

Terms of Reference

**As adopted at a Board Meeting on 20 February 2012
(and amended on 1 December 2016)**

1. Constitution

The Board of directors of the Company (“the Board”) has established a committee of the Board to be known as the Audit Committee (“the Committee”) as part of its process for establishing formal and transparent arrangements for considering how it should apply the corporate reporting, risk management and internal controls principles and for maintaining an appropriate relationship with the Company’s external auditor.

2. Membership

2.1 The Committee shall normally consist of a minimum of three members appointed by the Board on the recommendation of the Nomination Committee in consultation with the chair of the Committee.

2.2 All members of the Committee shall be independent non-executive directors of the Company, at least one of whom should have recent and relevant financial experience. Whilst the Company falls outside the FTSE350, the Chairman of the Board may be a member of the Committee, provided that he or she was independent on appointment.

2.3 The chair of the Committee will be appointed by the Board. In the absence of the chair of the Committee at a meeting, the remaining members present shall select one of themselves to chair the meeting.

2.4 Where practicable having regard to the size of the Board, appointments should be for a period of up to three years, extendable by no more than two additional three year periods, so long as members continue to be independent.

2.5 If members should request it, appropriate training will be provided on induction and on an ongoing basis to maintain a reasonable degree of up-to-date financial literacy that will enable them to carry out their duties. Training may take various forms, including attendance at formal courses, internal company talks or briefings by the external auditor.

2.6 The Company Secretary or their nominee shall be the secretary of the Committee.

3. Meetings

3.1 The chair of the Committee, in consultation with the secretary, shall determine the frequency and timing of meetings of the Committee at appropriate intervals in the financial reporting cycle and otherwise as required. Normally, meetings shall be held not less than three times a year. The external auditor and/or the Group head of audit and assurance may request a meeting if considered necessary.

- 3.2 Outside of the formal meeting programme the chairman of the Committee shall maintain a dialogue with key individuals involved in the Company's governance, including the chairman of the Board, the executive directors, the external audit lead partner and the Group head of audit and assurance.
- 3.3 The quorum for meetings of the Committee shall be two members.
- 3.4 Only members of the Committee have the right to attend Committee meetings. Other individuals such as the finance director, other directors, the Group head of audit and assurance and representatives from the finance department may be invited to attend all or any part of any meeting as and when appropriate. The external auditor will be invited to attend meetings on a regular basis.
- 3.5 The Committee will meet with the external auditor and the Group head of audit and assurance at least annually, without the Company's management being present, to discuss matters relating to its remit and any issues arising from the external audit and the internal audits.
- 3.6 Unless otherwise agreed, notice of each meeting together with an agenda of items to be discussed and supporting papers shall be sent to each member of the Committee and any other person invited to attend no later than 5 days before the date of the meeting to enable full and proper consideration to be given to issues.
- 3.7 The secretary shall minute the proceedings and decisions of all the meetings of the Committee. The secretary shall circulate the minutes of the meetings to all members of the Committee and, once agreed, to all other members of the Board, unless it would be inappropriate to do so in the opinion of the chair of the Committee.

4. Authority

- 4.1 The Committee is authorised by the Board:
- to investigate any activity within its terms of reference and any concerns as to financial impropriety that arise;
 - to seek any information it requires from any employee (and all employees are directed to co-operate with any request made by the Committee);
 - to obtain outside legal or other independent professional advice in connection therewith; and
 - to have the right to publish in the annual report details of any disagreement which cannot be resolved between the Committee and the Board.

5. Duties

The duties of the Committee shall be:

5.1 Financial reporting

- 5.1.1 to:
- monitor the integrity of the financial statements of the Company, including its annual and half yearly reports and any formal announcements relating thereto and any other formal announcements relating to the Company's financial performance; and

- review and report to the Board on significant financial reporting issues and judgements contained in them, having regard to matters communicated to it by the auditor.

5.1.2 to review and challenge where necessary:

- the assumptions used in going concern assessments;
- the methodology and key assumptions in the long-term viability statement;
- the consistency of, and any changes to, significant accounting policies on a year on year basis and across the Group;
- 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 the strategic report and the corporate governance statements (in so far as it relates to the work of the audit committee).

5.1.3 where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

5.2 Narrative reporting

5.2.1 the Committee should review the content of the annual report and accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

5.3 Internal controls and risk management systems

5.3.1 to review the adequacy and effectiveness of the Company's internal financial controls (the review of the Company's internal control and risk management systems being a matter for the Board as a whole).

5.4 Whistleblowing and fraud

5.4.1 to periodically review the adequacy and security of the arrangements by which employees and contractors of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action;

5.4.2 to review the Company's procedures for detecting fraud;

5.4.3 to review the adequacy of the Company's systems and controls for the prevention of bribery and to receive reports on any non-compliance;

5.4.4 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 steps to be taken.

5.5 Internal Audit

The Committee shall:

- 5.5.1 approve the appointment and termination of appointment of the Group head of audit and assurance;
- 5.5.2 approve the remit of the internal audit function to ensure:
 - that it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
 - that the function has adequate standing and is free from management or other restrictions; and
 - that the Group head of audit and assurance has direct access to the Chairman of the Board and to the chairman of the Committee and is accountable to the Committee.
- 5.5.3 monitor and review the effectiveness of the Company's internal audit function, including:
 - reviewing and assessing the annual internal audit plan;
 - receiving reports from the Group head of audit and assurance on the work of the internal audit function on a periodic basis;
 - reviewing and monitoring management's responsiveness to the findings and recommendations of the internal audit function;
 - meeting with the Group head of audit and assurance at least once a year without the presence of management, to discuss their remit and any issues arising from the internal audits carried out; and
 - monitoring and assessing the role and effectiveness of the internal audit function in the overall context of the Company's risk management system.

5.6 External Audit

- 5.6.1 to make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, regarding the appointment, re-appointment and removal of the external auditor, and if the external auditor resigns, to investigate the issues giving rise to the resignation and consider whether any action is required;
- 5.6.2 taking into account the UK Corporate Governance Code (the "Code") and relevant legal and regulatory framework, consider the appropriate frequency and timing for putting the audit services contract out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent 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 necessary to information and individuals during the duration of the tendering process;
- 5.6.3 to oversee the relationship with the external auditor including (but not limited) to:
 - approve their terms of engagement, including any engagement letter issued at the start of each audit and to review the scope of the external audit;
 - negotiate and agree the remuneration to be paid to the external auditor in respect of audit services, ensuring that the level of fee is appropriate to enable an effective and high quality audit to be conducted;

- assess annually the external auditor's independence and objectivity and the effectiveness of the audit process, having regard to relevant UK professional and regulatory requirements, and the relationship with the external auditor, including the provision of non-audit services;
- seek reassurance that the external auditor and its staff have no financial, business, employment, family or other personal relationship with the Company (other than in the ordinary course of business) which could adversely affect the external auditor's independence and objectivity;
- monitor compliance with the Company's policy on the employment of former employees of the Company's external auditor;
- monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared with the overall fee income of the firm, office and partner and other related requirements;
- assess annually the expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- seek to ensure co-ordination with the activities of the internal audit function;
- meet regularly with the external auditor including at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit; and
- evaluate 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 their external auditor from the market in that evaluation.

5.6.4 to review before the audit commences the external auditor's work plan, including planned levels of materiality, and to ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;

5.6.5 to review the findings of the audit with the external auditor, including:

- a discussion of any major issues arising during the audit;
- key accounting and audit judgments;
- levels of errors identified during the audit; and
- the overall effectiveness of the audit.

5.6.6 the Committee shall also:

- review the representation letter(s) requested by the external auditor before being signed by management;
- review the management letter and management's response to the external auditor's findings and recommendations; and
- review the Group's policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance and legislation on the matter.

6. Reporting procedures

6.1 The chair of the Committee shall report to the Board on the Committee's proceedings at the Board meeting following each Committee 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 these were addressed;
 - 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.
- 6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 6.3 The Committee shall produce a report to be included in the Company's annual report about its activities in accordance with the Code and applicable law.
- 6.4 The chairman of the Committee and members of the Committee, or in the chair's absence, an appointed deputy, will be expected to attend the annual general meeting to respond to any shareholder questions on the Committee's activities.

7. Other matters

The Committee shall:

- 7.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 7.2 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
- 7.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the FCA's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 7.4 be responsible for co-ordination of the internal and external auditors;
- 7.5 oversee any investigation of activities which are within its terms of reference; and
- 7.6 review its own performance, its constitution and its terms of reference on at least an annual basis to ensure it is operating effectively and make recommendations to the Board of any changes considered necessary.