

## **Terms of reference of the Audit and Risk Committee**

### **Constitution**

1. The board has established a Committee of the board to be known as the Audit and Risk Committee (“the Committee”).
2. On 13 March 2017, the board amended the terms of reference of the Committee as set out in this document. This amendment reflected the revised guidance from the Financial Reporting Council (“FRC”) for Audit Committees in April 2016.

### **Membership**

3. The Committee shall be appointed by the board. All members of the Committee shall be independent non-executive directors of the company. The Committee shall consist of not less than two members. A quorum shall be two members.
4. The Chairman of the Committee shall be appointed by the board from amongst the independent non-executive directors.
5. At least one member of the Committee should have recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector in which the group operates.

### **Attendance at meetings**

6. No one other than the Audit and Risk Committee members shall be entitled to attend the Committee meetings, but guests may be invited by the Chairman of the Committee.
7. The chief executive officer, the finance director and a representative of the external auditors shall generally attend meetings at the invitation of the Chairman of the Committee, which shall be issued with reasonable notice.
8. There should be at least one meeting a year, or part thereof, where the external auditors attend without executive board members present.
9. The company secretary shall be the secretary of the Committee.

### **Frequency of meetings**

10. Meetings shall be held not less than four times a year, and where appropriate should coincide with key dates in the company’s financial reporting cycle.
11. External auditors may request a meeting if they consider that one is necessary.

## **Authority**

The Committee is authorised by the board to:

12. Investigate any activity within its terms of reference.
13. Seek any information that it requires from any employee of the company and all employees are directed to cooperate with any request made by the Committee.
14. Obtain outside legal or independent professional advice and such advisors may attend meetings as necessary. Costs to be incurred should comply with the authorisation matrix.

## **Responsibilities**

The responsibilities of the Committee shall be:

### **Financial reporting**

15. To monitor the integrity of the financial statements of the company (and, when requested by the Board, any other formal announcements relating to its financial performance), reviewing and reporting to the board on significant financial reporting issues and judgements which they contain.
16. To review and challenge where necessary:
  - a. the consistency of, and any changes to, significant 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. accounting for key estimates and judgements;
  - d. the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and
  - e. all material information presented with the financial statements, such as the strategic report and the corporate governance statements relating to the audit, risk management, internal control, the going concern basis of accounting and longer term viability.
17. 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.
18. To consider other topics, as defined by the board.

### **Internal control and risk management**

19. To review the company's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters.

20. To review management's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management.
21. To monitor the integrity of the company's system of internal financial controls.
22. To review the statement in the annual report and accounts on the company's internal controls and risk management framework.
23. To assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks, reporting findings to the board.

### **Internal audit**

24. To consider annually the need for, and the benefits and costs of, any internal audit function and make a recommendation to the board on whether such a function is needed.

### **External audit**

25. To oversee the company's relations with the external auditor, including making recommendations on the appointment, reappointment and removal of the external auditor.
26. To initiate a tender process for audit services in accordance with regulatory requirements and in respect of such tender supervise the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tender process
27. To approve the terms of engagement and review the appropriateness of the audit fee to be paid to the external auditor.
28. To assess the qualification, expertise and resources, effectiveness and independence of the external auditors annually. Steps to consider include:
  - a. assessing annually their independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - b. satisfying itself that there are no relationships between the auditor and the company which could adversely affect the auditor's independence and objectivity;
  - c. agreeing with the board a policy on the employment of former employees of the company's auditor, and monitoring the implementation of this policy;
  - d. monitoring the auditor's compliance with the Ethical Standard 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;

- e. assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, including a report from the external auditor on their own internal quality procedures;
  - f. evaluating the risks to the quality and effectiveness of the financial reporting process, especially in light of the auditor's communication with the audit committee.
29. To discuss with the external auditors, before the audit commences, the nature and scope of the audit.
30. To review with the external auditors, the findings of their work, including, any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved; how they addressed the risks to audit quality identified earlier in the audit plan; key accounting and audit judgements; the auditor's perception of the interaction with senior management and other members of the financial team; levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted.
31. To review the group audit representation letter before consideration by the board, giving particular consideration to matters that relate to non-standard issues.
32. To assess, at the end of the audit cycle, the effectiveness of the audit process by:
- a. reviewing whether the auditor has met the agreed audit plan and understanding the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks
  - b. consideration of the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the Committee, and in their commentary, where appropriate, on the systems of internal control
  - c. obtaining feedback about the conduct and level of service of the audit from key people involved
33. To review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon.
34. To develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor and ensure that the provision of such services does not impair the external auditor's independence or objectivity, taking into account the Ethical Standard and legal requirements, and keep the policy under review to ensure that certain services are not provided by the auditor.
35. Pre-approve any fees in respect of non audit services provided by the external auditor which are not specifically, subject to a de minimis of £25,000 per engagement or a cumulative amount of £100,000 in any financial year.

## Reporting

36. 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.
37. The Committee shall annually review its terms of reference and its own effectiveness and recommend any necessary changes to the board.
38. The committee shall formally report to the board on how it has discharged its responsibilities.
39. The Committee's duties and activities during the year shall be disclosed in the annual financial statements. The Committee shall include within the annual report a description of the work of the Committee in how it has discharged its responsibilities. This report, signed by the Committee chairman, shall include:
  - a. a summary of the role and work of the audit committee;
  - b. how the audit committee composition requirements have been addressed, and the names and qualifications of all members of the audit committee during the period, if not provided elsewhere;
  - c. the number of audit committee meetings;
  - d. how the audit committee's performance evaluation has been conducted;
  - e. an explanation of how the committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment of the external auditor; the length of tenure of the current audit firm; the current audit partner name, and for how long the partner has held the role; when a tender was last conducted; and advance notice of any retendering plans;
  - f. if the external auditor provides non-audit services, the committee's policy for approval of non-audit services; how auditor objectivity and independence is safeguarded; the audit fees for the statutory audit of the company's consolidated financial statements paid to the auditor and its network firms for audit related services and other non-audit services, including the ratio of audit to non-audit work; and for each significant engagement, or category of engagements, explain what the services are and why the audit committee concluded that it was in the interests of the company to purchase them from the external auditor;
  - g. an explanation of how the committee has assessed the effectiveness of internal audit and satisfied itself that the quality, experience and expertise of the function is appropriate for the business;
  - h. the significant issues that it considered in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the auditors; the nature and extent of interaction (if any) with the FRC's Corporate Reporting Review team; and where a company's audit has been reviewed by the FRC's Audit Quality Review team, the Committee should discuss the findings with their auditors and consider whether any of those

findings are significant and, if so, make disclosures about the findings and the actions they and the auditors plan to take. This discussion should not include disclosure of the audit quality category; and

- i. any other issues on which the board has requested the Committee's opinion.
40. Where disagreements between the Committee and the board cannot be resolved, the Committee shall report the issue to the shareholders as part of the report on its activities in the company's annual report.
  41. If the board does not accept the Committee's recommendation regarding the appointment, reappointment and removal of the external auditors, the Committee shall include a statement explaining its recommendation and reasons why the board has taken a different stance in the annual report.
  42. The Committee Chairman should be present at the AGM to answer shareholder questions on the separate section of the annual report describing the Committee's activities and matters within the scope of the Committee's responsibilities.

Approved by the board

NS Stagg, Chairman and Chief Executive  
13 March 2017