

AUDIT COMMITTEE

TERMS OF REFERENCE

1. Membership

- 1.1. The Committee shall be appointed from time to time by the Board from amongst its non-executive directors.
- 1.2. The Committee shall be made up of at least three non-executive directors, at least one of whom will have competence in accounting or auditing or both. The members as a whole must have competence relevant to the sector the Company operates in.
- 1.3. Members of the committee shall be appointed by the board on the recommendation of the nomination committee in consultation with the chair of the audit committee. Appointments shall be for a period of up to three years which may be extended for up to two additional three-year periods, provided members continue to be independent.
- 1.4. Only members of the committee have the right to attend committee meetings. However, the group finance director, group financial controller and external lead external audit partner and chief executive officer will be invited to attend meetings of the committee on a regular basis, and other individuals may be invited to attend all or part of any meeting as and when appropriate.
- 1.5. The chair of the committee shall be appointed by the board. In the absence of the committee chair and/or deputy at a committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

2. Secretary

The company secretary or their nominee shall act as secretary to the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

3. Quorum

The quorum necessary for the transaction of business shall be any two members.

4. Frequency of meetings

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

4.2. Outside the formal meeting programme, the committee chair will maintain a dialogue with key individuals involved in the company's governance, including the board chair, chief executive, finance director and external lead partner and with the person responsible for internal audit.

5. Notice of Meetings

5.1. Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members, or at the request of the external audit lead partner or by the lead for internal audit if they consider it necessary.

5.2. Unless otherwise agreed, notice of each meeting confirming the venue, time, and date together with the agenda of items to be discussed, shall be forwarded to each member of the committee and any other person required to attend no later than 4 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 decisions of all committee meetings, including recording the names of those present or in attendance.

6.2. Draft minutes of committee meetings shall be circulated to all members of the committee. Once approved, minutes to be circulated to all members of the board and the company secretary unless, exceptionally, it would be inappropriate to do so.

7. Engagement with shareholders

The committee chair should attend the annual general meeting to answer any shareholder questions on the committee's activities. In addition, the committee chair should seek engagement with shareholders on significant matters related to the committee's area of responsibility.

8. Duties

The committee should have oversight of the group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent company, major subsidiary undertakings, and the group as a whole, as appropriate.

8.1. Financial reporting

8.1.1. The committee shall monitor the integrity of the financial statements of the company, including its annual and half-year reports, preliminary announcements and other formal statements relating to its financial performance, and review and report to the board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.

8.1.2. The committee shall review and challenge where necessary

- 8.1.2.1. the application of significant accounting policies and any changes to them
 - 8.1.2.2. the methods used to account for significant or unusual transactions where different approaches are possible
 - 8.1.2.3. whether the company had adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements
 - 8.1.2.4. the clarity and completeness of disclosures in the financial statements and the context in which the statements are made
 - 8.1.2.5. all material information presented with the financial statements, including the strategic report and corporate governance statements relating to the audit and related risk management.
- 8.1.3. To review other statements containing financial information where practical (without being inconsistent with any requirement for prompt reporting requirements under any law or regulations including the AIM rules for companies).
- 8.1.4. 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.

8.2. Narrative reporting

Where requested by the board, 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 and whether it informs the board's statement in the annual report on these matters.

8.3. Internal controls and risk management systems

The committee shall

- 8.3.1. keep under review the company's internal financial controls systems that identify, assess, manage, and monitor financial risks, and other internal control and risk management systems
- 8.3.2. review and approve the statements to be included in the annual report concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the viability statement.

8.4. Compliance, speaking-up and fraud

The committee shall

- 8.4.1. review the adequacy and security of the company's arrangements for its employees, contractors, and external parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The

committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action

8.4.2. review the company's procedures for detecting fraud

8.4.3. review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.

8.5. Internal audit

The committee shall:

8.5.1. review and approve the role and mandate of internal audit, monitor, and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organization.

8.5.2. review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out

8.5.3. ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards

8.5.4. ensure the internal function has direct access to the board chair and to the committee chair, providing independence from the executive and accountability to the committee

8.5.5. carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment

8.5.5.1. meet with the financial controller who leads internal audit without the presence of management to discuss the effectiveness of the function

8.5.5.2. review and assess the annual internal audit work plan

8.5.5.3. receive a report on the results of the internal auditor's work

8.5.5.4. determine whether it is satisfied that the quality, experience, and expertise of internal audit is appropriate for the business

8.5.5.5. review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function

8.5.5.6. monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system and the work of compliance, finance, and the external auditor

8.6. External audit

The committee shall:

- 8.6.1. consider and make recommendations to the board to be put to shareholders for approval at the AGM regarding the appointment or re-appointment and removal of the external auditor.
- 8.6.2. develop and oversee the selection procedure for the appointment of the audit firm in accordance with regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process
- 8.6.3. if an external auditor resigns, investigate the issues leading to this and decide whether any action is required
- 8.6.4. oversee the relationship with the external auditor. In this context the committee shall
 - 8.6.4.1. approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted
 - 8.6.4.2. approve their terms of engagement, including any engagement letter issued at the start of each audit and the nature and scope of the audit
- 8.6.5. assess annually the external auditor's independence and objectivity taking into account relevant law, regulation, the Ethical Standard and other professional requirements and the group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services
- 8.6.6. to discuss matters arising from the interim and final audits and any other matters the external auditors may wish to raise
- 8.6.7. to review the external auditor's management letter and management's response
- 8.6.8. to assess, at the end of the audit cycle, the effectiveness of the audit process
 - 8.6.8.1. threats to the independence and objectivity of the external auditor and any safeguards in place
 - 8.6.8.2. the nature of the non-audit services
 - 8.6.8.3. whether the external audit firm is the most suitable supplier of the non-audit service
 - 8.6.8.4. the fees for the non-audit services, both individually and in aggregate, relative to the audit fee

- 8.6.8.5. the criteria governing compensation
- 8.6.9. meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit
- 8.6.10. discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise, and experience of the audit team
- 8.6.11. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 8.6.11.1. a discussion of any major issues which arose during the audit
 - 8.6.11.2. the auditor's explanation of how the risks to audit quality were addressed
 - 8.6.11.3. key accounting and audit judgements
 - 8.6.11.4. the auditor's view of their interactions with senior management
 - 8.6.11.5. levels of errors identified during the audit
- 8.6.12. review any representation letter(s) requested by the external auditor before it is (they are) signed by management
- 8.6.13. review the management letter and management's response to the auditor's findings and recommendations
- 8.6.14. review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee

9. Reporting responsibilities

- 9.1. The Committee chair shall report formally to the board on its proceedings after each 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

- 9.1.1. the significant issues that it considered in relation to the financial statements and how these were addressed
- 9.1.2. its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans

- 9.1.3. any other issues on which the board has requested the committee's opinion
- 9.2. The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed
- 9.3. The committee shall compile a report on its activities to be included in the company's annual report. The report should describe the work of the audit committee, including:
 - 9.3.1. the significant issues that the committee considered in relation to the financial statements and how these issues were addressed
 - 9.3.2. an explanation of how the committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans
 - 9.3.3. an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information required.

In compiling the reports referred to in 9.1 and 9.3, the committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant but should include at least those matters that have informed the board's assessment of whether the company is a going concern and the inputs to the board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information

9.4. Internal control and risk management

- 9.4.1. To review the effectiveness of Group internal controls and risk management systems.
- 9.4.2. To review the company's procedure for detecting fraud.
- 9.4.3. To review the appropriateness of the company's whistleblowing policy.
- 9.4.4. An explanation of how the committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans
- 9.4.5. An explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other requirements.

10. Other matters

The Committee shall:

- 10.1. Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for advice and assistance as required.
- 10.2. 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.
- 10.3. Give due consideration to all relevant laws and regulations.
- 10.4. Be responsible for oversight of the coordination of the internal and external auditors.
- 10.5. To consider other topics as defined by the Board.
- 10.6. To at least once a year review its own performance, constitution and terms of reference to ensure it is operating to maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

11. Authority

The Committee is authorised to:

- 11.1. The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee.
- 11.2. The Committee is authorised to obtain expert advice or to invite any other director, or professional advisor to attend meetings. In the event the Committee decides to incur expenditure in obtaining professional advice, the Chairman and or Chief Executive shall be advised in advance and the Company Secretary shall be consulted and shall assist in preparing instructions and settling the basis for calculating advisors' fees.
- 11.3. Call any employee to be questioned at a meeting of the committee as and when required.
- 11.4. Have the right to publish in the company's annual report, details of any issues that cannot be resolved between the committee and the board. If the board has not accepted the committee's recommendation on the external auditor appointment, reappointment or removal, the annual report should include a statement explaining the committee's recommendation and the reasons why the board has taken a different position.