

Audit and Risk Committee

Terms of Reference (ToR)

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Owner: VP Risk & Assurance
Committee Approval: Audit and Risk Committee

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Audit and Risk Committee – Terms of Reference

Table of Contents

Contents

1.1 Change Control:	3
2.0 Purpose and Objective	4
3.0 Authority	4
4.0 Membership	4
5.0 Secretary	5
6.0 Roles and Responsibilities	5
7.0 Frequency of meetings and quorum	9
8.0 Meeting Operations	10
9.0 Annual General Meeting	10
10.0 Committee evaluation and ToR review	10

Audit and Risk Committee – Terms of Reference

1.0 Administration

1.1 Change Control:

Version	Author of Change	Date	Details of Change
1.0	Lauren Foster	August 2016	Update onto new template
1.1	Johnny Stephens	September 2016	September A&RC approved amends

Audit and Risk Committee – Terms of Reference

2.0 Purpose and Objective

A Committee of the Board of Directors with delegated authority to oversee the Group's financial reporting, risk management and internal control procedures and the work of its internal and external auditors.

3.0 Statutory Obligations

In exercising their rights and duties as the Committee, the Committee and its members shall have regard to the duties of a director, the Board and its Committees set out in the Companies Act 2006.

3.0 Authority

The Committee is authorised:

- 3.1 To seek any information it requires from any employee of the company in order to perform its duties and all employees are directed to co-operate with any request made by the Committee.
- 3.2 To obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference and to secure the attendance of such advisers if it considers such attendance necessary.
- 3.3 To call any employee to be questioned at a meeting of the Committee as and when required.
- 3.4 To publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.

4.0 Membership

- 4.1 The members of the Committee shall be appointed by the Board on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee and shall comprise of a Chairman and at least two other members, all of whom are independent non-executive directors.
- 4.2 Whilst the Committee itself will be made up entirely of independent non-executive directors, other individuals, e.g. executive directors and internal auditors may be invited to attend as and when appropriate but invitees will have no right of attendance. The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 4.3 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.
- 4.4 The Board shall appoint the Committee Chairman from its number 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 the members present to chair the meeting.

- 4.5 At least one member of the Committee shall have significant recent and relevant financial experience and at least one shall be competent in accounting and / or auditing. Also, all members shall possess a range of relevant sector and / or business experience and expertise necessary to meet the Committee's responsibilities
- 4.6 The Committee will apply a two-year moratorium on the appointment of senior personnel from the incoming auditor to the Committee, including former senior personnel of the auditor who, at the time they worked at the audit firm, had connections with the audit tender pursuit and/or engagement team.

5.0 Secretary

The Company Secretary shall act as the Secretary of the Committee.

6.0 Roles and Responsibilities

The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate. It is noted for the avoidance of doubt that, in fulfilling its duties referred to in this paragraph 8, the Committee may rely on the information provided by, where appropriate, executives of the Company, its external auditor and its internal auditors.

6.1 Financial Statements

6.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, and any financial information contained in certain other documents, such as announcements of a price sensitive nature.

6.1.2 The Committee shall review and challenge where necessary:

- 6.1.2.1 The consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
- 6.1.2.2 The methods used to account for significant or unusual transactions where different approaches are possible;
- 6.1.2.3 Whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 6.1.2.4 Significant adjustments resulting from the audit;
- 6.1.2.5 The clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- 6.1.2.6 All material information presented with the financial statements, such as the business review and the corporate governance statement (insofar as it relates to the audit and risk management);
- 6.1.2.7 The going concern assumption;

6.1.2.8 The viability statement assumptions;

6.1.2.9 Compliance with stock exchange and other legal requirements.

6.1.3 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.

6.2 Internal Control and Risk Management

The Committee shall:

6.2.1 Consider, review and monitor the principal risks and risk appetites aligned to the achievement of the Company's strategic objectives;

6.2.2 Review management's and the internal auditor's reports on the adequacy and effectiveness of the systems for internal control, reporting and risk management;

6.2.3 Monitor and review the adequacy and effectiveness of the systems established to identify, assess, manage and monitor risk;

6.2.4 Monitor and review the adequacy and effectiveness of material internal controls;

6.2.5 Review the statement in the annual report and accounts on the Company's internal controls and risk management framework prior to endorsement by the Board.

6.3 Whistle-blowing, Bribery, Corruption and Fraud

6.3.1 The Committee shall review the Group's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters including bribery and corruption. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

6.3.2 The Committee shall review the Group's procedures, systems and controls for the prevention and detection of bribery, fraud and corruption and receive reports on non-compliance with Group policy in this area from the Company Secretary and ensure that arrangements are in place to investigate any such matters, through independent third parties where appropriate.

6.4 Internal Audit

The Committee shall:

6.4.1 Approve the appointment and removal of the VP Risk and Assurance who shall have direct access to the Chairman of the Committee and the Board.

6.4.2 In the event that the internal audit function is provided by a third party, their appointment and removal will be subject to the approval of the Committee.

6.4.3 Develop and recommend to the Board the Company's policy in relation to the provision of non-audit services by any third party internal auditor and ensure that the provision of such services does not impair the third party internal auditor's independence or objectivity and complies with all relevant governance and regulatory requirements.

6.4.4 Consider and approve the charter of the internal audit function. The Committee shall also ensure that the internal audit function is adequately resourced and has appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions.

- 6.4.5 Review and approve the internal audit planning process, annual plan, and the internal audit cost/fees.
- 6.4.6 Receive reports on the results of the internal auditor's work on a periodic basis.
- 6.4.7 Review and monitor management's responsiveness to the findings and recommendations of the internal auditor.
- 6.4.8 Monitor and assess the role and effectiveness of the internal audit function.
- 6.4.9 Meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out.

6.5 External Audit

The Committee shall:

- 6.5.1 Consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, as regards the appointment, re-appointment and removal of the Company's external auditors and shall ensure that key partners within the appointed firm are rotated every five years in accordance with relevant ethical and professional guidance. The appointment of the external auditors shall be considered regularly by the Committee and in any event at not less than five year intervals. A 'qualifying' tender process will be undertaken within 10 years of appointment and a maximum permitted term of 20 years enforced.
- 6.5.2 Consider and announce the future date of and put out to tender the audit services contract, in line with the provisions of the UK Corporate Governance Code (the "Code") and as required by relevant legislation, 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.
- 6.5.3 Ensure that any incoming audit firm which has performed any design or implementation relating to financial reporting controls, procedures or systems, does not commence as auditor until 12 months after that work has been completed.
- 6.5.4 Upon completion of the audit tender process, the Committee will recommend to the Board a first and second choice auditor.
- 6.5.5 If an auditor resigns, investigate the issues leading to this and decide whether any action is required.
- 6.5.6 Meet with the external auditors at least twice each year, once at the planning stage prior to the audit where the scope of the audit will be considered and once post audit at the reporting stage. Each member of the Committee may, at his or her discretion, meet or correspond with the external auditors, for the purposes of the Committee. The Committee may delegate the attendance at such meetings to one or more of its members. The Committee shall meet with external auditors at least once a year, without management being present, to discuss the auditors remit and any issues arising from the audit.
- 6.5.7 Oversee the relationship with external auditors including (but not limited to):
 - 6.5.7.1 The independence and objectivity of the external auditors.
 - 6.5.7.2 The consideration and recommendation of the terms of engagement and audit fees which should be paid as well as any other fees which are payable to auditors in respect of non-audit activities.

- 6.5.7.3 To agree with the Board a policy on the employment of former employees of the Company's auditor and agree with the Company's auditor a policy on the employment of former employees of the Company, and then monitor the implementation of these policies.
- 6.5.7.4 To monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners and the level of fees paid by the Company and seek annually from the auditor information about its policies and processes for maintaining independence and monitoring compliance with relevant requirements.
- 6.5.7.5 To assess annually their qualifications, expertise and resources and the effectiveness of the audit process.
- 6.5.8 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 6.5.9 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; key accounting and audit judgements; 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.
- 6.5.10 Assess, at the end of the audit cycle, the effectiveness of the audit process.
- 6.5.11 Ensure that the auditor's management letters and management's responses are reviewed.
- 6.5.12 Review the audit representation letters before consideration by the Board, giving particular consideration to matters that relate to non-standard issues.
- 6.5.13 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 and complies with all relevant governance and regulatory requirements.
- 6.5.14 Consider the risk of the withdrawal of the Company's present auditor from the market.
- 6.5.15 Disclose the nature and extent of any interaction with the FRC's Corporate Reporting Review Team.
- 6.5.16 Disclose the significant issues and actions taken by the Auditor or the Committee, if relevant, following an FRC Audit Quality Review Team Inspection.

6.6 Reporting Responsibilities

- 6.6.1 The Committee shall prepare a report for inclusion in the annual report and accounts, specifically including:
- A summary role of the Committee;
 - The names and qualifications of all members of the Committee in the period;
 - The number of Committee meetings and attendance by each member;
 - The way the Committee has discharged its responsibilities;
 - The significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
 - An explanation of how it has 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 a tender was last conducted;

- An explanation of how it has assessed the effectiveness of internal audit, and how it has satisfied itself that the quality, experience and expertise of the function is appropriate for the business;
- If the external auditor provides non-audit services, an explanation of how auditor objectivity and independence are safeguarded; and
- A statement that the Committee considered 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.

6.6.2 The Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and on how it has discharged those responsibilities. This report shall include:

6.6.2.1 The significant issues that it considered in relation to the financial statements and how these issues were addressed;

6.6.2.2 Its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and

6.6.2.3 Any other issues on which the Board has requested the Committee's opinion.

6.6.3 In the light of its other duties, the Committee shall make whatever recommendations to the Board it deems appropriate.

6.7 Other Matters

The Committee shall:

6.7.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.

6.7.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members.

6.7.3 Give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus, Disclosure and Transparency Rules and any other applicable rules as appropriate.

6.7.4 Be responsible for co-ordination of the internal and external auditors.

6.7.5 Oversee any investigation of activities which are within its terms of reference and to give the final determine action in relation to any questions or issues arising from those activities.

6.7.6 On a regular basis and at least annually, review its performance, constitution and terms of reference to ensure it is operating at maximum effectiveness.

7.0 Frequency of meetings and quorum

Frequency

7.1 The Committee shall meet not less than four times a year to consider, inter alia, the interim and annual report and accounts, such meetings to coincide with key dates in the Company's financial reporting cycle. The Committee shall meet at such other times as the Chairman of the Committee shall require.

7.2 The Committee shall meet the lead external audit partner at least once a year, without management being present, to discuss their remit and any issues arising from the external

audit carried out. In addition, the head of external audit shall be given the right of access to the Chairman of the Board and the Committee.

- 7.3 External auditors or internal auditors may request to meet with the Committee if they consider that a meeting is necessary.

Quorum

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

8.0 Meeting Operations

Notice of Meetings

- 8.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairman or any member thereof or at the request of external or internal auditors, if they consider it necessary.
- 8.2 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 fewer than five days prior to the date of the meeting. Supporting papers shall be sent to the Committee members and to such other attendees, as appropriate, at the same time.

Minutes of Meetings

- 8.3 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 8.4 The Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 8.5 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and, once agreed, all members of the Board, unless it would be inappropriate to do so in the opinion of the Committee Chairman.

9.0 Annual General Meeting

The Chairman of the Committee shall attend the Annual General Meeting and be prepared to respond to any shareholder questions on the Committee's activities.

10.0 Committee evaluation and ToR review

The Terms of Reference are subject to annual review and approval by the Audit and Risk Committee.