

## **Audit Committee**

### **Terms of Reference**

*The primary responsibility of the Audit Committee is to ensure the independence and effectiveness of internal and external audit functions and assisting the Board in satisfying the integrity of the financial statements and announcements.*

#### **1. MEMBERSHIP**

- (a) The Committee shall comprise at least three members, all of whom shall be independent non-executive Directors, at least one of whom shall have recent and relevant financial experience.
- (b) Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee and in consultation with the Chair of the Committee.
- (c) Appointments to the Committee shall be for a period of up to three years, which may be extended, provided the member remains independent (in the opinion of the Board).
- (d) The Board shall appoint the Committee Chair. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of their number to chair the meeting.
- (e) At least one member should be literate in business and financial reporting and control, including knowledge of the regulatory requirements, and should have past employment experience in finance or accounting or other comparable experience or background.

#### **2. SECRETARY**

- (a) The Company Secretary or his or her nominee shall act as the Secretary of the Committee.

#### **3. MEETINGS**

- (a) The Committee shall meet at least four times a year and otherwise as required.
- (b) Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chair, the CEO, the CFO, the external audit lead partner, and the Financial Controller.
- (c) The quorum necessary for the transaction of business shall be two members.
- (d) A member of the Committee may participate in a Committee meeting in person, by telephone or video conference.
- (e) Only members of the Committee have the right to attend Committee meetings. Other individuals such as the Chair of the Board, Chief Financial Officer and other senior finance staff, other Directors (both Executive and Non-Executive) and members of senior management and external advisers may be invited to attend all or part of any meeting as and when appropriate.
- (f) The external auditor is invited to attend meetings of the Committee on a regular basis and shall have unrestricted access to the Committee and its Chair.

#### **4. NOTICE OF MEETINGS**

- (a) Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair or at the request of the internal or external auditors if they consider that one is necessary.
- (b) 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 later than two 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.

## **5. MINUTES OF MEETINGS**

- (a) The Secretary, or his or her nominated representative, shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- (b) The Chair shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- (c) Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee and once agreed, to all members of the Board, unless in the opinion of the Committee Chair it would be inappropriate to do so.

## **6. DELEGATION**

The Committee may sub-delegate any or all of its powers and authority as it thinks fit, including but without limitation, the establishment of sub-committees to analyse particular issues and to report back to the Committee.

## **7. DUTIES**

The Committee shall carry out the duties below for the Group as a whole, as appropriate.

### **(a) Financial Reporting**

The Committee shall:

- (i) monitor the integrity of the Financial Statements of the Group, 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 judgments which they contain. The Committee shall also review summary Financial Statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature;
- (ii) review and challenge where necessary:
  - a. the consistency and application of, and any changes to, accounting policies both on a year-on-year basis and across the Group;
  - b. the methods used to account for significant or unusual transactions where different approaches are possible including any decisions requiring a major element of judgement;
  - c. whether the Group has followed appropriate accounting standards and stock exchange and legal requirements and made appropriate estimates and judgments, taking into account the views of the external auditors;
  - d. significant adjustments resulting from the external audit;
  - e. the going concern assumption;
  - f. the clarity and consistency of disclosure in the Group's financial reports and the context in which statements are made; and
  - g. all material information presented with the Financial Statements, including the strategic report and corporate governance statements relating to the audit and risk management.
- (iii) Where requested by the Board, 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 Group's performance, business model and strategy and whether it

informs the Board's statement in the annual report on these matters that is required under the QCA Code of Corporate Governance.

#### **(b) Internal Controls and Risk Management Assurance Systems**

The Committee shall:

- (i) keep under review the effectiveness of the Group's internal controls and risk assurance systems, and report to the Board any concerns for determination as to whether the risk arising from the system is acceptable; and
- (ii) review and approve the statements to be included in the Annual Report concerning internal controls, risk assurance and the viability statement.
- (iii) Discuss with Management, review and assess policies and programmes in respect of risk assurance. In that regard, oversee and monitor the risk register and establish strategic direction for the management of defined risks.

#### **(c) Taxation**

The Committee shall:

- (i) review the Group's tax policy and effectiveness to ensure the Company can maximise its post-tax returns in a responsible manner.
- (ii) to consider the Company's tax planning to ensure it is aligned with the commercial and economic activities of the business and its values.

#### **(d) Compliance, Whistleblowing, and Fraud**

The Committee shall:

- (i) review the Group's arrangements for its employees 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;
- (ii) Review the Group's procedures for detecting fraud;
- (iii) Review the Group's systems and controls for the prevention of bribery and tax evasion, and receive reports on non-compliance;
- (iv) Review regular reports from Head of Compliance and keep under review the adequacy and effectiveness of the Group's compliance function.

#### **(e) Internal Audit**

The Committee shall:

- (i) review annually the need or otherwise for internal audit activities and monitor and review the effectiveness any such internal audit activities;
- (ii) consider and approve the appointment of, or any proposed change to, the individual with responsibility for internal audit; the post holder shall be given direct access to the Committee Chair;
- (iii) satisfy itself that internal audit is allocated adequate resources, appropriate access to information, adequate standing and is free from management or other restrictions;
- (iv) review and assess the internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- (v) consider and approve the terms of reference for internal audit and shall be advised of the planned programme of audits and the reason for any change or delay in the programme. The Committee shall meet with the individual with responsibility for internal audit at least once a year without management being present to discuss their remit and any issues arising;
- (vi) review the management of financial matters and focus upon the freedom allowed to the internal auditors;
- (vii) monitor the effectiveness of internal audit in the context of the Company's overall risk assurance system;

- (viii) review and monitor management responsiveness to the findings and recommendations of internal audits;
- (ix) consider promptly all reports on the Company from the internal audits.

**(f) External Audit**

The Committee shall:

- (i) consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required. If the Board does not accept the Committee's recommendation, it should include in the Annual Report, and in any papers recommending appointment or re-appointment, a statement from the Committee explaining the recommendation and should set out reasons why the Board has taken a different position;
- (ii) oversee the relationship with the external auditors including (but not limited to):
  - (a) approval of their remuneration, whether fees for audit or non-audit services, and that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;
  - (b) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (c) assess annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Annual Report explains to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded;
  - (d) satisfy itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business);
  - (e) monitor the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners and the level of non-audit fees paid by the Company; and
  - (f) in addition to the controls operated by the Company, the external auditor also operates procedures designed to safeguard its objectivity and independence. These include the periodic rotation of the audit partner, use of independent concurring partners, use of a technical review panel (where appropriate) and annual independence confirmations by all staff. The external auditor reports to the Committee on matters including independence and non-audit work on an annual basis;
- (iii) meet regularly with the external auditors, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditors at the end of each Committee meeting, without management being present, to discuss their remit and any issues arising from the audit;
- (iv) discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team, and to ensure co-ordination with internal audit activities;
- (v) review the findings of the audit with the external auditors. This shall include, but not be limited to, the following, including management's responses:
  - a. a discussion of any major issues which arose during the audit;
  - b. the auditor's explanation of any major issues which arose during the audit;
  - c. areas of accounting and audit significant judgments;

- d. levels of errors identified during the audit;
- e. review the effectiveness of the audit 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;
- f. the auditor's view of their interactions with senior management;
- g. review any representation letter(s) requested by the external auditors before they are signed by the Board; and
- h. review the management letter and management's response to the auditor's findings and recommendations.

#### **(g) Reporting Responsibilities**

The Committee shall:

- (i) report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities;
- (ii) make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
- (iii) compile a report to shareholders on its activities to be included in the Company's Annual Report including the number of, and attendance by members at, Committee meetings;
- (iv) make its terms of reference publicly available and review these terms of reference on a regular basis and, if necessary, make recommendations to the Board for their amendment.

#### **(h) Other Matters**

- (i) The Committee shall give due consideration to laws and regulations, the provisions of the QCA Code of Corporate Governance, the UK Corporate Governance Code (with which the Board seeks to comply, where appropriate for the Group, on a voluntary basis) and the requirements of the AIM Rules and associated guidance, as appropriate.
- (ii) The Committee shall oversee any investigation of activities which are within its terms of reference and act as a court of the last resort.
- (iii) At least once a year, the Committee shall review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.
- (iv) The Committee Chair shall attend the Company's Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.
- (v) The Committee shall not discuss, or pass resolutions in respect of, the remuneration of, or the terms of any consultancy agreement with, any Non-Executive Director which shall be a matter for the Board itself, subject to the provisions of the Articles of Association of the Company.

## **8. RESOURCES**

- (a) The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required.
- (b) The Committee is authorised by the Board to obtain, at the Group's expense, outside legal or other independent professional advice as it considers necessary on any matter within its terms of reference.
- (c) The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties. All employees are expected to cooperate with any request made by the Committee.
- (d) The Committee shall 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.