



Audit committee's terms of reference.

Constitution

The board hereby resolves to establish a committee of the board, to be known as the audit committee, to assist the board in fulfilling its oversight responsibilities.

Membership

The committee and the Chairman of the Committee shall be appointed by the board. All members of the committee shall be non-executive directors of the company.

The Chairman of the Board may also serve on the Committee as an additional member if he or she was considered independent on appointment as Chairman.

The committee shall consist of not less than two members and whenever possible will include at least one Independent non-executive directors. A quorum shall be two members.

The chairman of the committee shall be appointed by the board from amongst the non-executive directors.

One member of the audit committee should have significant, recent and relevant financial experience.

Appointments to the audit committee shall be for a period of up to three years, which may be extended for two further three year periods.

Secretary

The secretary of the company shall be the secretary of the committee.

The secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.

Draft minutes of committee meetings shall be circulated promptly to all members of the committee. Once approved, minutes should be circulated to all other members of the board unless in the opinion of the committee chairman it would be inappropriate to do so.

Attendance at meetings

No one other than the audit committee members shall be entitled to attend audit committee meetings.

The chairman, other non-executive directors, CEO, Group Financial Controller, representatives of the external auditors, or other persons shall attend meetings at the invitation of the committee.

There should be at least one meeting a year, or part thereof, where the audit committee meets the external auditors, and have the opportunity to discuss matters with the external auditors without executive board members present.

Frequency of meetings

Meetings shall be held not less than once a year (to coincide with key dates in the company's financial reporting cycle).

External auditors may request a meeting if they consider that one is necessary.

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.

Authority

The committee is authorised by the board to:

- investigate any activity within its terms of reference;
- 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; and,
- obtain outside legal or independent professional advice, at the company's expense, and secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

The duties of the committee shall be:

Financial reporting

- to review, and challenge where necessary, the actions and judgements of management, in relation to the company's financial statements, operating and financial review, interim reports, preliminary announcements and related formal statements before submission to, and approval by, the board, and before clearance by the auditors. Particular attention should be paid to:
 - critical accounting policies and practices, and any changes in them;
 - decisions requiring a significant element of judgement;
 - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed
 - the clarity of disclosures;
 - significant adjustments resulting from the audit;
 - the going concern assumption;
 - compliance with accounting standards;
 - compliance with stock exchange and other legal requirements; and,
- to consider other topics, as defined by the board or on the initiative of the Committee.

Internal control and risk management

- 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;
- to review management's and the internal auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management;
- to monitor the integrity of the company's internal financial controls;
- to review the statement in the annual report and accounts on the company's internal controls and risk management framework; and,
- to assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks. (Note: the board retains responsibility for the review of the effectiveness of the system of internal control and must form its own opinion despite aspects of that review being delegated to the audit committee.)

Internal audit

- to consider annually whether there is a need for an internal audit function where no such function exists;
- If it is determined an internal audit function is needed and does therefore exist:
 - to review the internal audit programme and ensure that the internal audit function is adequately resourced and has appropriate standing within the company;
 - to ensure that the internal auditor has direct access to the board chairman and the audit committee and is accountable to the audit committee;
 - to receive a report on the results of the internal auditors' work on a periodic basis;
 - to review and monitor management's responsiveness to the internal auditor's findings and recommendations;
 - to monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system; and,
 - to appoint or dismiss the head of internal audit.

External audit

- to oversee the company's relations with the external auditor(s);
- to consider, and make recommendations on the appointment, reappointment and removal of the external auditor(s);
- to approve the terms of engagement and the remuneration to be paid to any external auditor in respect of audit services provided;
- to assess the qualification, expertise and resources, effectiveness and independence of the external auditors annually. Steps to consider include:
 - seeking reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the company (other than in the normal course of business);
 - seeking from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff;
 - monitoring the external audit firm's compliance with applicable ethical guidance relating to the rotation of audit partners, the level of fees that the company pays in proportion to the overall fee income of the firm, office and partner and other related regulatory requirements;
 - agreeing with the board and monitoring the company's policy for the employment of former employees of the external auditor;
- to discuss with the external auditor(s), before the audit commences, the nature and scope of the audit;
- to review with the external auditor(s), 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 auditor(s), as to why certain errors might remain unadjusted;
- to review the audit representation letters before consideration by the board, giving particular consideration to matters that relate to non-standard issues;
- to assess, at the end of the audit cycle, the effectiveness of the audit process by:
 - reviewing whether the auditor(s) have 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 auditor(s) to address those risks;
 - consideration of the robustness and perceptiveness of the auditor(s) in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committees, and in their commentary, where appropriate, on the systems of internal control;
 - obtaining feedback about the conduct of the audit from key people involved;

External audit – continued

- 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;
- to develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor(s) and ensure that the provision of such services does not impair the external auditor's independence or objectivity. In doing so, the audit committee should:
 - consider whether the skills and experience of the audit firm make it a suitable supplier of the non-audit services;
 - consider whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor(s);
 - consider the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit fee;
 - consider the criteria which govern the compensation of the individuals performing the audit; and,
 - set and apply a formal policy specifying the types of non-audit work: from which the external auditors are excluded; for which the external auditors can be engaged without referral to the audit committee; and for which audit committee pre-approval is required.

Reporting

- 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.
- The audit committee shall annually review its terms of reference and its own effectiveness and recommend any necessary changes to the board.
- The audit committee shall prepare a report on its role and responsibilities and the actions it has taken to discharge those responsibilities for inclusion in the annual report and accounts. Such a report should specifically include:
 - a summary of the role of the audit committee;
 - the names and qualifications of all members of the audit committee during the period;
 - the number of audit committee meetings and attendance by each member; and
 - the way the audit committee has discharged its responsibilities.
- Where disagreements between the audit committee and the board cannot be resolved, the audit committee shall report the issue to the shareholders as part of the report on its activities in the company's annual report.
- If the board does not accept the audit committee's recommendation regarding the appointment, reappointment and removal of the external auditor(s), the audit committee shall include a statement explaining its recommendation and reasons why the board has taken a different stance in the annual report.
- The audit committee chairman shall attend the AGM and shall answer questions, through the chairman of the board, on the audit committee's activities and their responsibilities.

Compliance, whistleblowing and fraud

The Committee shall:

- review the adequacy and security of the Company's arrangements for its employees and contractors 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;
- review the Company's procedures for detecting fraud; and,
- review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

Other matters

The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretary as required.

The Committee shall 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 as appropriate.

The Committee shall, on a regular basis, 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.

The Committee shall make available these Terms of Reference to shareholders through the Company website.