

## **Audit Committee terms of reference**

### **1. MEMBERSHIP**

- 1.1 The Committee shall be appointed by the Board and members of the Committee shall be independent non-executive Directors.
- 1.2 The Committee shall have at least two members and at least one member should have recent and relevant financial experience. The Chairman of the Board may be a member of the Committee.
- 1.3 A quorum shall be any two members of the Committee.

### **2. AUTHORITY**

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. The Committee is authorised by the Board to examine any activity within its terms of reference and is authorised to have unrestricted access to the Company's external auditors and to obtain, at the Company's expense, professional advice on any matter within its terms of reference provided that the Committee will have due regard to their fiduciary duty to the Company and will only incur such costs as are reasonable in the circumstances. The Committee is authorised to seek any information it requires from any employee or Director, and all such employees or Directors will be directed to co-operate with any request made by the Committee.

### **3. FREQUENCY OF MEETINGS AND ATTENDANCE AT MEETINGS**

- 3.1 The Committee will meet at least three times a year. The Committee may meet at other times during the year as agreed between the members of the Committee or as required.
- 3.2 Only members of the Committee have the right to attend Committee meetings. Other Directors/attendees may be invited to attend all or part of any meeting as and when appropriate including the external auditors, internal auditor and the Chief Financial Officer.

### **4. SECRETARY**

- 4.1 The Company Secretary or his/her duly appointed nominee shall act as Secretary of the Committee. Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee.

### **5. FINANCIAL REPORTING**

- 5.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half yearly reports, preliminary results' announcements and any other formal announcement relating to its financial performance.
- 5.2 The Committee shall review and challenge where necessary:
  - 5.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company and any subsidiaries from time to time;
  - 5.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 5.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

- 5.2.4 the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- 5.2.5 all material information presented with the financial statements, such as the Directors' report and strategic report and any corporate governance statement (insofar as it relates to the audit and risk management).
- 5.2.6 To review any changes in accounting principles, to determine the appropriateness, not just the acceptability, of accounting principles and financial disclosure practices.

5.3 If the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board of Directors.

## **6. INTERNAL CONTROL AND RISK MANAGEMENT**

- 6.1 To review the Company's system of internal control prior to endorsement by the Board.
- 6.2 To determine appropriate internal assurance or internal audit services and approve the statements to be included in the annual report concerning internal controls and risk management.
- 6.3 To review the corporate risk management procedures.

## **7. ANTI-BRIBERY, WHISTLEBLOWING AND FRAUD**

The Committee shall:

- 7.1 Receive regular reports on significant litigation or regulatory matters;
- 7.2 Review the appropriateness of any arrangements the Committee determines for to be necessary for concerns to be raised about possible wrongdoing in financial reporting or other matters concerning the Company.
- 7.3 Review the Company's procedures for detecting fraud.
- 7.4 Review Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## **8. EXTERNAL AUDITORS**

The Committee shall:

- 8.1 Consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. If an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.
- 8.2 Ensure that at least once every ten years the audit services contract is put out to tender 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 oversee the selection process and further ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process.
- 8.3 Oversee the relationship with the external auditor including (but not limited to):
  - (i) recommendations on their remuneration, including 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;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing 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;
  - (iv) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - (v) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (vi) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vii) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function (if any); and
  - (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market on that evaluation.
- 8.4 Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the

external auditor at least once a year, without any employee of then Group including any executive director being present, to discuss their remit and any issues arising from the audit.

- 8.5 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
- 8.6 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
  - 8.6.1 a discussion of any major issues which arose during the audit;
  - 8.6.2 any accounting and audit judgements;
  - 8.6.3 levels of errors identified during the audit; and
  - 8.6.4 the effectiveness of the audit.
- 8.7 Review any representation letter(s) requested by the external auditor before they are submitted to the Board for approval.
- 8.8 Review the representation letter and responses to the auditor's findings and and recommendations.
- 8.9 Develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.
- 8.10 The Chairman of the Committee shall report formally to the Board on its proceedings after each meeting, when requested, on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. The report shall include:
  - 8.10.1 the significant issues that it had considered in relation to the financial statements and how these were addressed;
  - 8.10.2 the assessment of the effectiveness of the external audit process and its recommendations on the appointment/reappointment of the external auditor.
- 8.11 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 8.12 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report shall include, where appropriate, an explanation of how the Committee has addressed the effectiveness of the external audit process, the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed having regard to matters communicated to it by the auditor.
- 8.13 The Committee shall:
  - 8.13.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretary for assistance as required;
  - 8.13.2 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;
  - 8.13.3 give due consideration to applicable laws and regulations, the provisions of any relevant corporate governance code and the requirements of the AIM Rules for Companies;
  - 8.13.4 keep itself informed of any investigation of activities which are within its terms of reference and oversee such investigation when appropriate; and

8.13.5 shall review these terms of reference on a regular basis and in particular, in response to changes in regulatory requirements, legal requirements or best practice, and shall recommend any changes to the Board that it deems necessary.

8.14 To consider such other matters as may be requested by the Board of Directors.

**9. OTHER MATTERS**

9.1 These terms of reference have been approved by the Board.

**10. GENERAL MATTERS**

The Chairman of the Committee should make himself or herself available at each Annual General Meeting of the Company to answer questions concerning the Committee's work, where practicable.