

AUDIT COMMITTEE (Members & Terms of Reference)

Members of committee : **S Daykin (Chairman)**
 N Wright

TERMS OF REFERENCE

1. Membership and Attendance

- 1.1 The Committee shall be appointed by the Board and shall comprise of a Chairman and at least one other member.
- 1.2 All members of the Committee shall be either independent non-executive directors or an executive director who is deemed to be independent at the time of their appointment. At least one member of the Committee shall have recent relevant financial knowledge. The Company Chairman may be a member of the Committee, but not the Chair, in addition to at least two other independent executives.
- 1.3 Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence.
- 1.4 The Board shall appoint the Committee Chairman who shall be an independent non-executive director.
- 1.5 The Committee shall invite the Group Finance Director to attend all meetings together with any relevant senior management.
- 1.6 The Committee shall ask a representative of the external auditors to attend all meetings. The Committee may request that part of a meeting be held with the external auditor without management being present.
- 1.7 The Committee as a whole shall have competence relevant to the sector in which the Group operates.

2. Secretary

- 2.1 At the request of the Committee the Company Secretary may act as Secretary of the Committee.

3. Quorum

- 3.1 The quorum necessary for the transaction of business shall be as prescribed by the Articles of Association (presently 2). A duly convened meeting of the Committee of 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.

4. Frequency of Meetings

- 4.1 The Committee shall meet not less than twice a year and at such times as the Chairman of the Committee shall require.
- 4.2 Meetings will be arranged to tie in with the publication of the Company's financial statements.
- 4.3 Meetings can be requested by the external auditors if they consider one is necessary.

5. Notice of Meetings

- 5.1 Meetings of the Committee shall be summoned by the Chairman of the Committee at the request of any member thereof.
- 5.2 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, and any other person required to attend no fewer than 5 working days prior to the date of the meeting.

6. Minutes of Meetings

- 6.1 The proceedings and resolutions of all meetings of the Committee shall be minuted, including recording the names of those present and in attendance.
- 6.2 At the beginning of each meeting the existence of any conflicts of interest should be ascertained and minuted.
- 6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to the Chairman and all members of the Board.

7. Annual General Meeting

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

8. Duties

8.1 *Internal Control and Risk Assessment*

- 8.1.1 The Committee shall keep under review the effectiveness of the Company's financial reporting and internal financial control policies and procedures for the identification, assessment and reporting of financial risk.

8.2 *External Audit*

- 8.2.1 The Committee shall consider and make recommendations to the Board for it to put to the shareholders for the approval in General Meeting, as regards the appointment and re-appointment of the Company's external auditors and their remuneration and terms of engagement, and shall ensure that key partners within the appointed firm are rotated from time to time.
- 8.2.2 The Committee shall report to the Board on how it has discharged its responsibilities.
- 8.2.3 The Committee shall meet with the external auditors at least twice each year, once at the planning stage, where the scope of the audit will be considered, and once post audit at the reporting stage, and shall ensure that any auditor's management letters and management's responses are reviewed.
- 8.2.4 The Committee shall keep under review the relationship with external auditors including (but not limited to):
 - 8.2.4.1 the independence and objectivity of the external auditors and the effectiveness of the audit process, taking into consideration relevant UK and US professional and regulatory requirements;
 - 8.2.4.2 the consideration of audit fees which should be paid as well as any other fees which are payable to auditors in respect of non-audit activities;
 - 8.2.4.3 discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made vis-à-vis the Company's internal controls;
 - 8.2.4.4 implementation of the Board's policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance.

8.3 *Financial Statements*

- 8.3.1 The Committee shall keep under review the consistency of accounting policies both on a year to year basis and across the Group.
- 8.3.2 The Committee shall review and challenge where necessary the integrity of the Company's financial statements and any formal announcements containing detailed commentary upon the Company's financial performance taking into account:
 - 8.3.2.1 decisions requiring a major element of judgement;
 - 8.3.2.2 the extent to which the financial statements are affected by any unusual transactions;
 - 8.3.2.3 the clarity of disclosures;
 - 8.3.2.4 significant adjustments resulting from the audit;
 - 8.3.2.5 the going concern assumption;
 - 8.3.2.6 compliance with accounting standards;

- 8.3.2.7 Whether 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 position and performance, business model and strategy.

8.4 Reporting Responsibilities

- 8.4.1 The Committee's Chairman shall meet formally with the Board of Directors at least once a year to discuss such matters as the Annual Report and the relationship with the external auditors.
- 8.4.2 The Committee shall have primary responsibility for making a recommendation on the appointment, reappointment and removal of external auditors. 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.
- 8.4.3 In the light of its other duties the Committee shall make whatever recommendations to the Board it deems appropriate and shall compile a report to shareholders to be included in the Company's Annual Report and Accounts. The report should include the significant issues that the Committee considered in relation to the financial statements, and how these were addressed. In addition, the report should include an explanation of how it assessed the 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. Finally, in relation to such non-audit services as have been provided by the auditor (if any), explain how auditor objectivity and independence has been safeguarded.

8.5 Other Matters

- 8.5.1 The Committee shall give due consideration to the requirements of the UK Listing Authority's Listing Rules.
- 8.5.2 The Committee shall be responsible for co-ordination of the external auditors.
- 8.5.3 The Committee will review the Company's procedures for handling allegations from whistle-blowers, and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.
- 8.5.4 The Committee shall oversee any investigation of activities, which are within its terms of reference.
- 8.5.5 The Committee should on a regular basis review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness.
- 8.5.6 The Committee should annually consider whether there is a need for an internal audit function and make a recommendation to the Board.

9. Authority

The Committee is authorised:

- 9.1 to seek any information it requires from any employee of the Company in order to perform its duties, whilst bearing in mind the need to preserve the authority of line management; including an invitation to any member of staff to be questioned at a meeting of the Committee as and when required;
- 9.2 to obtain, at the reasonable expense of the Company, external professional advice on matters within its terms of reference.