

## **Constitution and Terms of Reference – Audit and Risk Committee (the “Committee”)**

**Adopted by the Board on 19 March 2018**

### **Membership**

1. The Committee shall comprise at least two members who shall be appointed by the Board on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee.
2. All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience and competence in accounting or auditing. Where possible one member of the Remuneration Committee shall be a member of the Committee. In the event that the Company Chairman is a Committee member, then he/she must have been independent upon appointment.
3. A quorum shall be any two members of the Committee.
4. The Chairman of the Committee shall be appointed by the Board. In the absence of the Committee Chairman the remaining members present shall elect one of the members present to chair the meeting.

### **Secretary**

The Company Secretary or their nominee shall act as the Secretary of the Committee.

### **Meetings**

1. The Committee may ask the Chief Executive, Finance Director and any relevant senior management to attend meetings either regularly or by invitation, but the invitees have no right of attendance.
2. The Committee shall ask a representative of the external auditors and the Group Head of Risk & Assurance to attend meetings as required. The Committee should have at least one meeting or part thereof, with the external auditor without management being present, to discuss their remit and any issues arising out of the audit.
3. Meetings shall be held normally three times per year and not less than twice a year, at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
4. Outside of the formal meeting programme, the Committee Chairman, and to a lesser extent other Committee members, will maintain a dialogue with key individuals involved in the Company's governance.
5. A meeting of the Committee shall be convened by the Secretary at the request of any Committee member or at the request of the external audit lead partner or the Group Head of Risk & Assurance, if they consider that a meeting is necessary.
6. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee or any person required to attend and all other non-executive directors, no fewer than five days prior to the date of the meeting.
7. Draft copies of the minutes of the meetings shall be circulated to all members of the Committee. Copy minutes shall be made available, for information purposes, to the rest of the Board at the next Board meeting, unless in the opinion of the Committee Chairman it would be inappropriate to do so. The Committee Chairman shall provide a verbal update on the business considered by the Committee at each Board meeting.
8. The Chairman of the Committee should attend the AGM and be prepared to respond to shareholders' questions on the activities of the Committee.

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### **Duties**

The Committee should have oversight of the group as a whole and, unless required otherwise by regulation, carry out duties below for the parent company, major subsidiary undertakings and the group as a whole.

#### ***Internal Control and Risk (Risk and Assurance)***

The Committee shall:

- advise the Board on the Company's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment and other authoritative sources that may be relevant for the Company's risk policies;
- oversee and advise the Board on the current risk exposures of the Company and future risk strategy;
- review reports on any material breaches of risk limits and the adequacy of proposed action;
- review the Company's procedures for detecting fraud;
- review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
- 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.

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

#### ***Internal Audit (Group Risk & Assurance function)***

The Committee shall:

- consider and approve the terms of reference of the Group Risk & Assurance function as it relates to assurance activities, ensuring that it has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate and that it can perform in accordance with appropriate professional standards for internal auditors.
- ensure that the Risk & Assurance function has open communication between different functions and that it evaluates the effectiveness of these functions as part of the Plan.
- approve the appointment or removal of the Group Head of Risk & Assurance.
- review and monitor management's responsiveness to the findings and recommendations of the Group Head of Risk & Assurance.
- review and approve the Annual Assurance Plan ( the “Plan”), which should be developed with reference to an up to date view of the key inherent risks across the business.
- ensure that the Plan is consistent with the scope of the audit engagement, reviewing any changes to the Plan and ensuring implementation of the Plan.
- review at least twice yearly summary assurance reports produced by the Group Risk & Assurance function.
- monitor and assess the role and effectiveness of the Risk & Assurance function in the overall context of the Plan and receive regular reports on the work carried out.
- consider whether an independent third party review process is required.

The Chairman of the Audit and Risk Committee should meet at least annually the Group Head of Risk & Assurance without management being present, to discuss their respective remit and any other appropriate issues.

The Group Head of Risk & Assurance shall be given the right of direct access to the Chairman of the Committee and Chairman of the Board.

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The Committee shall annually, assess the effectiveness of the Group Risk & Assurance function and determine whether it is satisfied that the quality, expertise and experience of the Risk & Assurance function is appropriate for the business.

### ***External Audit***

The Committee shall:

- 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 the terms of engagement and remuneration, and shall ensure that key partners within the appointed firm are rotated from time to time.
- ensure that the quality and effectiveness of the services provided by the incumbent auditor are reviewed on an ongoing basis.
- develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.

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.

- keep under review the relationship with external auditors including (but not limited to):
  - assessing annually the independence and objectivity of the external auditors taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including any threats to the auditor’s independence and the safeguards applied to mitigate those threats including the provision of non-audit services;
  - satisfying itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) that could adversely affect the auditor’s independence and objectivity;
  - agreeing with the Board a policy on the employment of former employees of the Company’s external auditor taking into account the FRC’s Ethical Standard and legal requirements, and monitor the application of this policy;
  - review and approval of the annual audit plan and findings from the audit and ensuring it is aligned to the key risks of the business;
  - review of any representation letter(s) requested by the auditor before being signed by management;
  - review of the management letter and management’s response to the auditor’s findings and recommendations;
  - review of the effectiveness of the audit process, including the quality of the audit and key judgements of the auditor;
  - the consideration of audit fees which should be paid and other fees which are payable to the auditors in respect of non-audit activities and the scope of such activities;
  - development and recommendation to the Board the Company’s formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the types of non-audit services to be pre-approved, and assessment of whether non-audit services have a direct material effect on the audited financial statements. Such policy should include:
    - threats to the independence and objectivity of the external auditor and any safeguards in place;
    - the nature of non-audit services;
    - whether the external audit firm is the most suitable supplier of the non-audit service;
    - the fees for the non-audit services both individually and in aggregate relative to the audit fee; and
    - the criteria governing compensation

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- approval of the terms of engagement, including any engagement letter used at the start of each audit and the scope of each audit;
- seeking to ensure co-ordination of the external audit with the activities of internal Risk & Assurance function;
- discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external audits have vis-à-vis the Company’s internal auditing standards;
- discussing with the auditors the factors that could affect the audit quality and review and approve the Plan ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- review of the findings of the audit with the external auditor, including but not limited to any major issues that arose during the audit; how the risks to audit quality were addressed; key accounting and audit judgements; the auditors view of the interactions with senior management and levels of errors identified during the audit; and
- if the auditors resign, investigating the issues leading to this and decide whether any action is required.

### **Financial Reporting**

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 and report to the Board on the financial statements and significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditors.

The Committee shall keep under review the consistency of, and any changes to, accounting policies both on a year to year basis and across the Company/group.

The Committee shall review and challenge where necessary:

- the application of significant accounting policies and any changes to them;
- the methods used to account for significant or unusual transactions or adjustments where different approaches are possible;
- whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the external auditor’s views on the financial statements;
- all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and risk management;
- the clarity and completeness of disclosures in the Company’s financial reports and the context in which statements are made;
- the going concern assumption; and
- the separate requirement for a statement in respect of the viability of the Company (comprising its long term solvency and liquidity) over a specified period, being significantly longer than 12 months.

The Committee shall review statements containing financial information ensuring compliance with the Listing Rules, Disclosure Guidance and Transparency Rules sourcebook together with other legal requirements.

The Committee shall 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 Company’s performance, business model and strategy.

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.

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### **Reporting Responsibilities**

The Committee Chairman shall report to the Board on how it has discharged its responsibilities; including:

- the significant issues it has considered in relation to the financial statements in the annual report and accounts;
- its assessment of the effectiveness of the external audit process, including the approach in relation to the appointment/re-appointment of the external auditor, length of tenure and retendering plans; and
- any other issue on which the Board has sought the Committee's opinion.

The Committee shall make whatever recommendations to the Board that it deems appropriate on any area within its remit where action or improvement is necessary.

The Committee shall compile a report on its activities to be included in the Company's annual report and accounts, which shall include an explanation of how the Committee addressed the effectiveness of the external audit process; the significant issues the Committee considered in relation to the financial statements and how these were addressed having regard to matters communicated to it by the auditor and all other information requirements set out in the Corporate Governance Code.

When compiling reports and advising the Board the Committee shall exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the Company is a going concern and the inputs to the Board's viability statement.

### **Other Matters**

The Committee shall give due consideration to the requirements of the UK Listing Authority's Listings Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable appropriate rules.

The Committee shall review the co-ordination of the Group Risk & Assurance function and the external auditors.

The Committee shall oversee any investigation of activities which are within the terms of reference and act as a court of the last resort.

The Committee should, on a regular basis, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any necessary changes to the Board.

The Committee shall ensure that its members receive adequate and appropriate training on matters relating to its terms of reference.

The Committee shall have access to sufficient resources in order to carry out its duties.

The Committee shall work and liaise as necessary with all other Board committees, taking particular account of the impact of risk management and internal controls being delegated to different committees.

The Committee shall review the annual financial statements of the pension schemes where not reviewed by the Board as a whole to ensure the pension schemes have been audited.

### **Authority**

The Committee is authorised by the Board to:

- investigate any activity within its terms of reference;
- seek any information it requires from any employee of the group and all employees are directed to co-operate with any request made by the Committee;
- obtain external legal or other independent professional advice and to ensure the attendance of outsiders with relevant experience and expertise if it considers this necessary; and
- have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.