

Audit and Risk Committee Terms of Reference

Purpose

The purpose of the Audit and Risk Committee (“the committee”) is to make recommendations to the board on the appointment of the external auditors and their audit fee. It also has responsibility for overseeing the conduct and control of the annual audit, for reviewing the internal financial controls and for reviewing financial statements prior to publication. In terms of risk the purpose is to assess risk and changes to risk and determine how these risks can be managed and mitigated, making appropriate recommendations to the board.

1. Membership

- 1.1. The committee shall comprise at least two members. All members must be independent non-executive directors.
- 1.2. At least one of the independent non-executive directors shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The chair of the board may be a member of, but not chair, the committee provided he was independent on appointment as chair of the board. The finance director shall be a committee member or in attendance at all meetings. The committee chair shall decide, with the chief executive officer, whether the chief executive officer should be present at meetings.
- 1.3. Only members of the committee have the right to attend committee meetings. However, the external auditor will be invited to attend meetings of the committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.4. Appointments to the committee are made by the board and shall be for a period of up to three years, which may be extended for further periods of up to three-years, provided the director still meets the criteria for membership of the committee.
- 1.5. 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 the non-executive directors to chair the meeting.

2. Secretary

- 2.1. The company secretary, or his or her nominee, shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

3. Quorum

- 3.1. The quorum necessary for the transaction of business shall be two members.

4. Frequency of meetings

- 4.1. The committee shall meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.

- 4.2. 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 chief executive, the finance director and the external audit lead partner.

5. Notice of meetings

- 5.1. Meetings of the committee shall be convened by the secretary of the committee at the request of any of its members or at the request of the external audit lead partner if they consider it necessary.
- 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, 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.

6. Minutes of meetings

- 6.1. The secretary shall minute the proceedings and decisions of all meetings of the committee, including recording the names of those present and in attendance.
- 6.2. 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 it would be inappropriate to do so in the opinion of the committee chair.

7. Annual general meeting

- 7.1. The committee chair should attend the annual general meeting to answer shareholder questions on the committee's activities.

8. Duties

The committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

8.1. Financial reporting

- 8.1.1. The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing and reporting to the board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the external auditor.
- 8.1.2. In particular, the committee shall review and challenge where necessary:
 - 8.1.2.1. the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the group
 - 8.1.2.2. the methods used to account for significant or unusual transactions where different approaches are possible

- 8.1.2.3. whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
- 8.1.2.4. the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made, and
- 8.1.2.5. all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management.

8.1.3. 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.

8.2. Narrative reporting

Where requested by the board, the committee should 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.

8.3. Internal controls and risk management systems

The committee's primary role is to:

- 8.3.1. keep under review the adequacy and effectiveness of the company's internal financial controls and internal control and risk management systems, and
- 8.3.2. review and approve the statements to be included in the annual report concerning internal controls and risk management.

Specifically it will:

- 8.3.3. 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 drawing on financial stability assessments such as those published by relevant industry and regulatory authorities including the Bank of England, the Prudential Regulation Authority, the Financial Conduct Authority and other authoritative sources that may be relevant for the company's risk policies, and
- 8.3.4. oversee and advise the board on the current risk exposures of the company and future risk strategy.
- 8.3.5. in relation to risk assessment:
 - 8.3.5.1. keep under review the company's overall risk assessment processes that inform the board's decision making, ensuring both qualitative and quantitative metrics are used
 - 8.3.5.2. review regularly and approve the parameters used in these measures and the methodology adopted, and
 - 8.3.5.3. set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance
- 8.3.6. review the company's capability to identify and manage new risk types

- 8.3.7. before a decision to proceed is taken by the board, advise the board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the company, and taking independent external advice where appropriate and available
- 8.3.8. review reports on any material breaches of risk limits and the adequacy of proposed action
- 8.3.9. keep under review the effectiveness of the company's internal financial controls and internal controls and risk management systems and review and approve the statements to be included in the annual report concerning internal controls and risk management
- 8.3.10. provide qualitative and quantitative advice to the remuneration committee on risk weightings to be applied to performance objectives incorporated in executive remuneration
- 8.3.11. consider and approve the remit of the risk management function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The committee shall also ensure the function has adequate independence and is free from management and other restrictions

8.4. Compliance, whistleblowing and fraud

The committee shall:

- 8.4.1. 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
- 8.4.2. review the company's procedures for detecting fraud, and
- 8.4.3. review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.

8.5. External audit

The committee shall:

- 8.5.1. 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; 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 in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process
- 8.5.2. if an auditor resigns, investigate the issues leading to this and decide whether any action is required
- 8.5.3. oversee the relationship with the external auditor including (but not limited to):

- 8.5.3.1. recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted
- 8.5.3.2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
- 8.5.3.3. 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
- 8.5.3.4. 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
- 8.5.3.5. agreeing with the board a policy on the employment of former employees of the company's auditor, and monitoring the implementation of this policy; monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements
- 8.5.3.6. 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, and
- 8.5.3.7. 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 in that evaluation
- 8.5.4. meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit
- 8.5.5. 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
- 8.5.6. review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - 8.5.6.1. a discussion of any major issues which arose during the audit
 - 8.5.6.2. key accounting and audit judgements
 - 8.5.6.3. levels of errors identified during the audit, and
 - 8.5.6.4. the effectiveness of the audit process.

The committee shall also:

- 8.5.7. review any representation letter(s) requested by the external auditor before they are signed by management
- 8.5.8. review the management letter and management's response to the auditor's findings and recommendations, and

- 8.5.9. develop and implement 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.

9. Reporting responsibilities

- 9.1. With reference to audit, the committee chair shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also report to the board on how it has discharged its responsibilities.

This report shall include:

- 9.1.1. the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed
- 9.1.2. its assessment of the effectiveness of the external audit process (required under paragraph 8.6.4.7) and its recommendation on the appointment or reappointment of the external auditor, and
- 9.1.3. any other issues on which the Board has requested the Committee's opinion.
- 9.2. With reference to risk, the committee chair shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.3. The committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.4. The committee shall compile a report on its activities to be included in the company's annual report. The report should include 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; and all other information requirements set out in the Code.
- 9.5. The committee shall produce a report of its activities and the company's risk management and strategy to be included in the company's annual report.
- 9.6. The directors' report in the annual report and accounts should set out risk management objectives and policies including in relation to financial instruments.

10. Other matters

The committee shall:

- 10.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required
- 10.2. 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
- 10.3. give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate
- 10.4. oversee any investigation of activities which are within its terms of reference

- 10.5. work and liaise as necessary with all other board committees
- 10.6. arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board.

11. Authority

The committee is authorised to:

- 11.1. seek any information it requires from any employee of the company in order to perform its duties
- 11.2. to obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so
- 11.3. call any employee to be questioned at a meeting of the committee as and when required, and
- 11.4. 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.