

# AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

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## 1. Purpose

- 1.1 The Audit and Risk Committee is responsible for providing assurance to the Board in relation to the integrity of the company's financial reporting, the effectiveness of internal financial controls and overseeing the effectiveness of the company's risk management framework.

## 2. Proceedings of the Committee

<b>Chair</b>	The board shall appoint the chairman of the committee. In the absence of the chairman, the remaining members present shall elect one of themselves to chair the meeting.
<b>Membership</b>	The membership is made up of the board chairman and the non-executive directors.
<b>Attendees</b>	Regular attendees shall be the external auditor, the chief financial officer, the chief executive and the head of internal audit. The committee may invite other non-members to attend.
<b>Quorum</b>	Three directors including at least one industry director and one non-industry director..
<b>Frequency</b>	Three times each year and otherwise as required.
<b>Notice</b>	Unless otherwise agreed, the agenda and papers should be circulated at least 5 days prior to the meeting. 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 or head of internal audit.
<b>Authority</b>	The committee is authorised by the board to investigate any activity within these terms of reference and, within its scope of responsibilities, to seek any information it requires and to ensure the attendance of management representatives at meetings as appropriate. The committee has the authority to obtain outside legal or independent professional advice.
<b>Reporting</b>	The committee shall compile a report on its activities to be included in the company's annual report. The report should include the significant issues that the committee considered in relation to the financial statements and how these issues were addressed and a report of the committee's risk management activities and the company's risk management and strategy. The Committee shall, at least once a year, review its own performance, constitution and terms of reference to ensure it is operating effectively and recommend any changes it considers necessary to the board for approval.
<b>Documentation</b>	Minutes to be kept and filed by the secretary to the committee.

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## 3. Duties

The duties of the committee in relation to the company and the group shall be:

### 3.1 Financial Reporting

3.1.1 The committee shall monitor the integrity of the financial statements of the company included in its Annual Report and Accounts and other formal documents containing financial statements.

3.1.2 In particular, the committee shall review and challenge where necessary:

- the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the company/group;
- the methods used to account for significant or unusual transactions where different approaches are possible;
- whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- the clarity and completeness of disclosures in the company's financial reports and the context in which statements are made; and
- all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the company and to risk management.

### 3.2 Narrative reporting

3.2.1 The committee should review the content of the annual report and accounts and determine whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary to assess the company's performance, business model and strategy.

### 3.3 External Audit

The committee shall:

3.3.1 consider and make recommendations, to be put to shareholders for their approval at the AGM, concerning the appointment, re-appointment and removal of the company's external auditor;

3.3.2 ensure that at least once every ten years a market testing exercise is conducted in relation to the audit services contract to enable the committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; if the committee determines to conduct a tender, the committee shall 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;

3.3.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;

3.3.4 oversee the relationship with the external auditor including (but not limited to):

- approval of their remuneration;
- approval of their terms of engagement;
- assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
- 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;

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- monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners;
  - 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;
  - seeking to ensure the co-ordination of activities with the internal audit function; and
  - 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;
- 3.3.5 meet regularly with the external auditor, and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 3.3.6 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement; ;
- 3.3.7 review the findings of the audit with the external auditor. This shall include but not be limited to the following:
- a discussion of any major issues which arose during the audit;
  - key accounting and audit judgements;
  - levels of errors identified during the audit; and
  - the effectiveness of the audit process.

The committee shall also:

- 3.3.8 review any representation letter(s) requested by the external auditor before they are signed;
- 3.3.9 review the management letter and management's response to the auditor's findings and recommendations; and
- 3.3.10 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.

## **3.4 Internal Controls and Internal Audit**

The committee shall:

- 3.4.1 keep under review the adequacy and effectiveness of the company's internal control framework;
- 3.4.2 approve the appointment or termination of appointment of the head of the internal audit;
- 3.4.3 review and approve the effectiveness of the internal audit function, review the internal audit programme, review the internal auditor's reports and ensure that the internal audit function has the necessary resources and access to information to enable it to perform its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 3.4.4 review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- 3.4.5 review:
- the adequacy and security of the company's whistleblowing policy;
  - the company's procedures for detecting fraud; and
  - the company's systems and controls for the prevention of bribery.

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## 3.5 Risk and Risk Management

The committee shall:

- 3.5.1 receive reports from management which enable the committee to assess the risks involved in the company's business and to consider the principal risks identified by management and how they are controlled and monitored;
- 3.5.2 advise the board on the company's overall risk appetite, tolerance and strategy;
- 3.5.3 review the company's capability to identify and manage new risk types;
- 3.5.4 review reports on any material breaches of risk limits and the adequacy of proposed action;
- 3.5.5 monitor the company's approach to managing risk and ensuring that management actions are appropriate in the context of the company's overall risk appetite;
- 3.5.6 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.

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