

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### 1. MEMBERSHIP AND ATTENDANCE

1.1 The Committee and the Chairman of the Committee shall be appointed by the Board. Until otherwise decided by the Board the members of the Committee shall comprise the Chairman of the Board and at least 2 (two) other members who shall be independent Non-Executive Directors. The Chairman of the Board shall not act as Chairman of the Committee.

At least one member of the Committee should have recent relevant financial experience.

1.2 In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.

1.3 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.

1.4 The Committee shall ask a representative of the external auditor to attend the three regular Committee meetings within the annual cycle in May, September and November (see 4.2 below). The Committee may request the attendance of any personnel carrying out part or all of the internal audit at such meetings as the Committee shall decide. The Committee should hold private discussions with the external auditor without management being present during at least one of the Committee meetings during the year.

1.5 The Company Secretary or any other person nominated by the Committee shall act as the Secretary of the Committee.

### 2. QUORUM

Two (2) members of the Committee shall constitute a quorum.

### 3. DUTIES

#### 3.1 Internal control and risk assessment

The Committee shall

3.1.1 keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment, mitigation and reporting of risks, including the risk of fraud; and

3.1.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

#### 3.2 Internal audit

3.2.1 The Committee shall monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk

management system. Where the function is not performed through a dedicated, appointed individual the Committee shall consider annually whether there is a need for a dedicated internal auditor and, if there is, make a recommendation to the Board.

- 3.2.2 The Committee shall approve the appointment and termination of appointment of those persons carrying out the internal audit function.
- 3.2.3 The Committee shall consider and approve the structure, methodology and terms of reference for the internal audit process, shall review the internal audit plan and shall be advised of any change or delay in the implementation of the audit plan.
- 3.2.4 The Committee shall review the management of financial matters and ensure that adequate resources are available to enable the internal audit to be effective and to gain appropriate access to information to enable it to perform its function. The Committee shall also ensure that the process is given adequate priority and is free from management or other restrictions.
- 3.2.5 All personnel associated with the internal audit process shall be given the right of direct access to the Chairman of the Committee.

### **3.3 External audit**

- 3.3.1 The Committee shall consider and make recommendations to the Board as regards the appointment and re-appointment and removal of the company's external auditor, including as to the possible rotation of key partners within the appointed firm.
- 3.3.2 The Committee shall meet with the external auditor at least 3 (three) times each year as referred to in 1.4 above.
- 3.3.3 The Committee shall review the findings of the audit with the external auditor. This shall include but not be limited to, the following;
  - 3.3.3.1 a discussion of any major issues which arose during the audit;
  - 3.3.3.2 any accounting and audit judgements; and
  - 3.3.3.3 levels of errors identified during the audit.
- 3.3.4 The Committee shall keep under review the relationship with the external auditor including (but not limited to):
  - 3.3.4.1 an annual assessment of the independence and objectivity of the external auditor taking into account professional and regulatory requirements and the policy upon engagement of external auditors to supply non-audit services;
  - 3.3.4.2 the consideration of audit fees which should be paid to enable an adequate audit to be conducted as well as any other fees which are payable to auditors in respect of non-audit activities;
  - 3.3.4.3 satisfying itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business);
  - 3.3.4.4 agreeing with the Board a policy on the employment of former employees of the external auditor, then monitoring the implementation of this policy;
  - 3.3.4.5 monitoring the auditor's compliance with relevant ethical and professional guidance;

3.3.4.6 assessing annually the auditor's qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on its own quality procedures.

3.3.5 The Committee shall review the effectiveness of the external audit and shall:

3.3.5.1 review any representation letters requested by the external auditor before they are signed by management;

3.3.5.2 review the management letter and management's response to the auditor's findings and recommendations; and

3.3.5.3 develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

#### **3.4 Financial Statements**

3.4.1 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, including reviewing significant financial reporting issues and the accounting judgements which they contain.

3.4.2 The Committee shall review and challenge where necessary the company's financial statements taking into account:

3.4.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;

3.4.2.2 decisions requiring a major element of judgement;

3.4.2.3 the extent to which the financial statements are affected by any unusual transactions;

3.4.2.4 the clarity of disclosure;

3.4.2.5 significant adjustments resulting from the audit;

3.4.2.6 the going concern assumption;

3.4.2.7 compliance with and changes to accounting standards;

3.4.2.8 compliance with stock exchange and other legal requirements;

3.4.2.9 all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement; and

3.4.2.10 compliance with the Company's statement on internal control systems and the policies and process for identifying and assessing business risks and the management of those risks by the Company.

#### **3.5 Reporting responsibilities**

3.5.1 The Committee or its Chairman shall meet formally with the Board of Directors at least 3 (three) times a year to discuss such matters as the Annual Report and the relationship with the external auditors.

3.5.2 Upon any matter within its remit, the Committee shall make whatever recommendations to the Board it deems appropriate.

3.5.3 The Committee shall give due consideration to, and in particular will ensure that the annual report to shareholders contains the particulars required by, the Listing Rules and the Combined Code.

**3.6 Other matters**

3.6.1 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretary as required.

3.6.2 The Committee will review and oversee the Company's procedures for handling disclosures by whistleblowers.

3.6.3 The Committee shall, on a regular basis, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness.

3.6.4 The Committee shall make available these Terms of Reference to shareholders through the Company website.

**4. FREQUENCY OF MEETINGS**

4.1 The Committee shall meet not less than 3 (three) times a year, in May, September and November/December. The Committee may meet at such other 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, allowing, whenever practicable, at least 3 (three) working days prior to a Board Meeting where accounts or financial statements are to be approved. The schedule of matters to be reviewed by the Committee during its annual cycle of meetings is set out in Appendix 1 attached. The schedule will be regularly reviewed by the Committee.

**5. NOTICE OF MEETINGS**

5.1 Meetings of the Committee shall be held at the request of any Committee member or upon the request of the external auditor or any member of the internal audit team .

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 Committee member, any other person required to attend and all other Non-Executive Directors, no less than 3 (three) working days prior to the date of the meeting.

5.3 Meetings of the Committee may be held by telephone or video conference facility.

**6. MINUTES OF MEETINGS**

6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance and the existence of any conflicts of interest.

6.2 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and all members of the Board.

**7. ANNUAL GENERAL MEETING**

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

8. **AUTHORITY**

The Committee is authorised:

- 8.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 8.2 to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference; and
- 8.3 to call any employee to attend at a meeting of the Committee as and when required.

9. **DEFINITIONS**

- 9.1 "Combined Code" means the Combined Code on Corporate Governance as amended from time to time.
- 9.2 "Listing Rules" means the rules published by the Financial Services Authority and contained in the Listing Rules sourcebook which is part of the FSA handbook.

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## Appendix 1

### Matters for review by the Audit Committee

Taken from the Smith Guidance on Audit Committees (July 2003)

	<b>Meetings</b>	<b>Frequency</b>
2.10	Meet the internal and external auditors, without management, to review matters relating to the Committee's remit and any issues arising from the audit.	At least annually  The Committee normally meets x3 each year in September (Year end audit plan), November (year end report) and May (Interim report)
	<b>Skills, experience and training</b>	
2.19	Review the need for training for members of the Committee on principles of and developments in financial reporting and related company law.	Ongoing  PwC update the Committee on developments at each meeting as required
	<b>Relationship with the board</b>	
3.3	Review the Committee's terms of reference and its effectiveness, recommending any changes to the terms of reference to the board.	Annually  Review Terms of Ref in November. Effectiveness part of annual Board and Committee evaluation (first this summer)
3.4	Prompt the board to review the Committee's effectiveness	Annually  Within annual evaluation
	<b>Role and responsibilities</b>	
	<b><i>Financial reporting</i></b>	
4.1	Review significant financial reporting issues and judgments made in the preparation of the company's financial statements, interim reports, preliminary announcements and related formal statements.	Ongoing as documents fall to be issued  Each meeting
4.2	Consider whether the company has adopted appropriate accounting policies. Review the clarity and completeness of the disclosures in the financial statements.	Ongoing as documents fall to be issued  First sentence – Each meeting. Second sentence - May/November
4.4	Review information presented with the financial statements, including the operational and financial review, and corporate governance statements relating to the audit and to risk management.	Ongoing as documents fall to be issued  Mainly November
	<b><i>Internal controls and risk management systems</i></b>	

4.5	Review systems established to identify, assess, manage and monitor financial risks.	Board reviews risk in September (October this year). Internal audit report in May/November PwC review control systems in November
4.6	Review reports received from management on the effectiveness of risk management systems.	As above
4.7	Review and approve the statements included in the annual report in relation to internal control and the management of risk.	Annually - November
	<b>Whistleblowing</b>	
4.8	Review whistleblowing arrangements to ensure they provide for a proportionate and independent investigation and follow up action.	Policy and Code reviewed in November
	<b>Internal audit process</b>	
4.9	Monitor and review the effectiveness of the internal audit function. Where there is no such function, consider whether there is a need for one.	Annual review of internal audit process - November Internal audit reports to the Committee in May and November.
4.10	Review and approve the internal auditor's remit	Annually – Normally would arise when considering reports in May and November.

	<b>Appointment</b>	
4.14	Provide recommendation for appointment, reappointment and removal of auditors.	Annually – September
4.16	In connection with 4.14, assess the qualification, expertise, resources and independence of external auditors and the effectiveness of the audit process.	Annually - September
	<b>Terms and remuneration</b>	
4.18	Approve terms of engagement and remuneration to be paid to the external auditor.	Annually - September
	<b>Independence, including provision of non-audit services</b>	
4.21	Review the relationships between the company and the external audit firm and form a view as to whether the auditor's judgement or independence is impaired.	Annually - November
4.22	In connection with 4.21, require audit firm confirmation that the auditors and their staff have no family, financial, employment, investment or business relationship with the company (other than in the normal course of business). Seek information about policies and processes for maintaining independence	Annually The November PwC report attaches their Independence letter and quality procedures report

	and monitoring compliance with relevant requirements, including rotation of audit partners and staff.	
4.23	In connection with 4.21 monitor application of the company's policy for the employment of former employees of the external auditor, particularly those who have been part of the audit team.	Ongoing
4.24	Monitor the level of fees that the company pays for the external audit in proportion to the overall fee income of the audit firm.	September and November
4.25	In connection with 4.21 monitor application of the company's policy in relation to provision of non-audit services by the auditor.	November

	<b>Annual audit cycle</b>	
4.30	Review the auditor's overall work plan including planned levels of materiality and proposed resources to execute the plan.	At the start of each annual audit cycle September
4.32	Review with the external auditors the findings of their work. Discuss major issues, key accounting and audit judgements and review levels of errors identified during the audit.	November/ May
4.33	Review the audit representation letters before signature by management.	November/May
4.34	Review the management letter (or equivalent) as part of the ongoing monitoring process.	November/May
4.35	Asses the effectiveness of the of the audit process including the robustness and perceptiveness of the auditors in handling key accounting and audit judgements and their commentary on systems of internal control. Obtain feedback on the conduct of the audit from the Finance Director.	At the end of each annual audit cycle November
	<b>Communication with shareholders</b>	
5.3	Chairman of the Committee to be present at the AGM to answer questions through the Chairman, on the report of the Committee's activities.	January

Taken from International Standard on Auditing 240

	<b>Fraud</b>	
	Review the risk of fraud and the measures in place to mitigate such risk	Ongoing Each meeting