

## **TERMS OF REFERENCE**

### **AUDIT & RISK COMMITTEE (THE 'COMMITTEE')**

15 October 2022

The Board of the Company ('the Board') had previously established a committee of the Board known as the Audit Committee at a meeting held on 12 May 2005, when terms of reference were formally agreed. The terms of reference for the Audit & Risk Committee were revised and approved by the Board on 15 October 2022.

#### **1. Role and Responsibilities**

The Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing and challenging its accounting policies and scrutinising the effectiveness of the Internal and External Auditors and the Company's internal control and risk management systems.

The main role and responsibilities of the Committee include:

- ensuring the interests of the shareholders are properly protected in relation to financial reporting and internal controls;
- monitoring the integrity of the financial statements and any formal announcements relating to financial performance;
- reviewing and challenging the accounting policies for presenting to the Board for approval;
- reviewing internal financial controls and reviewing the internal control and risk management systems;
- monitoring and reviewing the effectiveness of the internal audit function;
- making recommendations to the Board in relation to the appointment, re-appointment and removal of the External Auditor and approving the remuneration and terms of engagement of the External Auditor;
- monitoring and reviewing the effectiveness of the External Auditor; and
- reviewing the External Auditor's independence and objectivity.

In the performance of its responsibilities the Committee shall:

- have access to sufficient resources in order to carry out its duties;
- 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;
- give due consideration to relevant laws and regulations, the provisions of the 2018 Corporate Governance Code (the 'Code') and the requirements of the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- be responsible for coordination of the Internal and External Auditors;
- oversee any investigation of activities which are within its terms of reference;
- work and liaise as necessary with all other Board Committees; and
- 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.

## **2. Membership**

- 2.1 Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chair of the Committee. The Committee shall be made up of at least three members and, where possible, include one member of the Remuneration Committee. Appointments shall be for a period of up to three years which may be extended for up to two additional periods, provided the director still meets the criteria for membership of the Committee.
- 2.2 All members of the Committee shall be independent Non-Executive Directors at least one of whom shall have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies and with competence in accounting and/or auditing.
- 2.3 The Chair of the Board shall not be a member of the Committee but will be invited to attend on a regular basis.
- 2.4 Only members of the Committee have the right to attend Committee meetings. However, the Chief Financial Officer, Head of Risk Assurance and the External Auditor lead partner will be invited to attend meetings of the Committee on a regular basis and other non-members, including the Chief Executive and Senior Executive Management may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.5 The Board shall appoint the Chair of the Committee. In the absence of the Chair of the Committee and/or an appointed Deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

## **3. Secretary**

The Company Secretary, or his or her nominee, shall act as the Secretary of the Committee (the 'Secretary') 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.

## **4. Quorum**

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at 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.

## **5. Frequency of meetings**

- 5.1 The Committee shall meet at least four times a year at appropriate intervals in the financial reporting and audit cycle to coincide with the Company's financial reporting cycle and otherwise as required.
- 5.2 Outside of the formal meeting programme, the Chair of the Committee, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the Company's governance, including the Chairman of the Board, the Chief Executive, the Chief Financial Officer, the Company Secretary, External Audit lead partner and the Head of

Risk Assurance.

## **6. Notice of meetings**

- 6.1 Meetings of the Committee shall be convened by the Secretary at the request of any of its members or at the request of the External Auditor lead partner or Head of Risk Assurance if they consider it necessary.
- 6.2 Unless otherwise agreed by the Committee, 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 no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members at the same time.
- 6.3 Notices, agendas and supporting papers can be sent in electronic form.

## **7. Minutes of meetings**

- 7.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 7.3 Draft minutes of Committee meetings shall be agreed with the Chair of the Committee and then circulated promptly to all members of the Committee, unless it would be inappropriate to do so in the opinion of the Chair of the Committee.

## **8. Engagement with Shareholders**

The Chair of the Committee should attend the Annual General Meeting to answer shareholder questions on the Committee's activities. In addition the Chair of the Committee should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

## **9. Duties**

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

### **9.1 Financial reporting**

- 9.1.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary announcements and, to the extent requested to do so by the Board, any other formal statements relating to its financial performance and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the External Auditor.

9.1.2 In particular, the Committee shall review and challenge where necessary:

- 9.1.2.1 The consistency, quality and appropriateness of, and any changes to, accounting policies both on year on year basis and across the Company;
- 9.1.2.2 the application of significant accounting policies and any changes to them;
- 9.1.2.3 the methods used to account for significant or unusual transactions where different approaches are possible;
- 9.1.2.4 whether the Company has followed appropriate accounting policies and made appropriate estimates and judgements, taking into account the External Auditor's views on the financial statements;
- 9.1.2.5 the extent to which areas involving complex arrangements or unusual transactions impact the financial statements and how such areas are disclosed;
- 9.1.2.6 significant adjustments resulting from the external audit;
- 9.1.2.7 the basis for the going concern statement and the longer term viability statement;
- 9.1.2.8 non-financial reporting measures, including non-financial KPI's for inclusion in the annual report;
- 9.1.2.9 the clarity of disclosure in the Company and Company financial statements and the context in which statements are made;
- 9.1.2.10 compliance with financial reporting, relevant governance, stock exchange and legal requirements; and
- 9.1.2.11 all material information presented with the financial statements, including the strategic report and the corporate governance statement relating to the audit and to risk management.

9.1.3 If requested so to do by the Board, the Committee shall review any other statements requiring Board approval which contain financial information first, where to carry out a review prior to Board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation including the Listing Rules, Prospectus Rules, and Disclosure Guidance and Transparency Rules or Market Abuse Regulations 2015 sourcebook or the Task Force on Climate Related Financial Disclosures.

9.1.4 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.

## 9.2 Narrative reporting

Where requested by the Board, the Committee should review the content of the Annual Report 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 and whether it informs the Board's statement in the Annual Report on these matters that is required under the Code.

## 9.3 Internal controls and risk management systems

The Committee shall:

- 9.3.1 keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management

systems;

- 9.3.2 review and recommend to the Board for approval the statements to be included in the Annual Report concerning internal control, risk management including the assessment of principal and emerging risks and the long-term viability statement;
- 9.3.3 monitor and at least annually carry out a review of the effectiveness of the Company's internal financial controls, internal controls and risk management systems identifying business risks and mitigating their financial impact on the Company to ensure that a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, is completed;
- 9.3.4 the Committee will review with, members of the senior management team, the internal control and risk management systems;
- 9.3.5 the Committee will be updated by the Head of Risk Assurance on the activities relating to risk management and any matters arising therefrom at each meeting;
- 9.3.6 review the Company's insurance arrangements;
- 9.3.7 consider (in the absence of management at the discretion of the Committee) the major findings of any relevant internal investigations into control weaknesses, fraud or misconduct, and the relevant management response to this, including the Company's response to any issues raised under the Company's Right to Speak policy;
- 9.3.8 review, prior to the endorsement of the Board, the statements to be included in the Annual Report concerning internal controls and risk management and its compliance with the relevant provisions of the Code.

The Chair of the Committee is invited to attend, twice yearly, the executive management's discussion on risk management.

#### 9.4 Compliance, whistleblowing and fraud

The Committee shall:

- 9.4.1 review, with members of the senior management of, 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
- 9.4.2 the Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 9.4.3 review the Company's procedures for detecting fraud;
- 9.4.4 review the Company's systems and controls for ethical behaviour generally and the prevention of bribery in particular and receive reports on non-compliance; and
- 9.4.5 review regular reports from the Head of Risk Assurance and keep under review the adequacy and effectiveness of the Company's compliance activities.

## 9.5 Internal audit

The Committee shall:

- 9.5.1 approve the appointment or termination of appointment of the Head of Risk Assurance;
- 9.5.2 review and approve the role and mandate of internal audit, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- 9.5.3 monitor and review, with members of the senior management team of each division the effectiveness of the work of the internal audit plan
- 9.5.4 review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out;
- 9.5.5 ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 9.5.6 ensure the Internal Auditor has direct access to the Chair of the Board and to the Chair of the Committee, providing independence from the Executive Directors and accountability to the Committee;
  - 9.5.6.1 carry out an annual assessment of the effectiveness of the internal audit function;
  - 9.5.6.2 meet with the Head of Risk Assurance without the presence of management to discuss the effectiveness of the function;
  - 9.5.6.3 review and assess the annual internal audit work plan;
  - 9.5.6.4 receive a report on the results of the Internal Auditor's work;
  - 9.5.6.5 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - 9.5.6.6 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 9.5.7 monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the External Auditor; and
- 9.5.8 consider whether an independent, third party review of processes is appropriate.

## 9.6 External Auditor

The Committee shall:

- 9.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's External Auditor;
- 9.6.2 develop and 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;
- 9.6.3 if an External Auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 9.6.4 oversee the relationship with the External Auditor. In this context the Committee shall:
  - 9.6.4.1 approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted; and
  - 9.6.4.2 approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 9.6.5 assess annually the External Auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard<sup>1</sup> and other professional requirements and the Company's relationship with the External Auditor as a whole, including any threats to the External Auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
- 9.6.6 satisfy itself that there are no relationships between the External Auditor and the Company (other than in the ordinary course of business) which could adversely affect the External Auditor's independence and objectivity;
- 9.6.7 agree with the Board a policy on the employment of former employees of the Company's External Auditor, taking into account the Ethical Standard<sup>1</sup> and legal requirements, and monitor the application of this policy;
- 9.6.8 monitor the External Auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard<sup>1</sup>, including the guidance on the rotation of audit partner and staff;
- 9.6.9 monitor the level of fees paid by the Company to the External Auditor compared to the

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<sup>1</sup> FRC Revised Ethical Standard December 2019

overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard;

- 9.6.10 assess annually the qualifications, expertise and resources, and independence of the External Auditor and the effectiveness of the external audit process, which shall include a report from the External Auditor on their own internal quality procedures;
- 9.6.11 seek to ensure coordination of the external audit with the activities of the internal audit function;
- 9.6.12 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the External Auditor's communications with the Committee;
- 9.6.13 develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the External Auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.

The policy should include consideration of the following matters:

- 9.6.13.1 threats to the independence and objectivity of the External Auditor and any safeguards in place;
- 9.6.13.2 the nature of the non-audit services;
- 9.6.13.3 whether the external audit firm is the most suitable supplier of the non-audit service;
- 9.6.13.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
- 9.6.13.5 the criteria governing compensation;
- 9.6.14 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, meet with the External Auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
- 9.6.15 discuss with the External Auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 9.6.16 review the findings of the audit with the External Auditor. This shall include but not be limited to, the following:
  - 9.6.16.1 a discussion of any major issues which arose during the audit;
  - 9.6.16.2 the auditor's explanation of how the risks to audit quality were addressed;



- 9.6.16.3 key accounting and audit judgements;
- 9.6.16.4 the External Auditor's view of their interactions with senior management; and
- 9.6.16.5 levels of errors identified during the audit;
- 9.6.17 review any representation letter(s) requested by the External Auditor before they are signed by management. If any changes are required following Committee approval, such changes are to be approved by the Chair of the Committee;
- 9.6.18 review the management letter and management's response to the External Auditor's findings and recommendations; and
- 9.6.19 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the External Auditor, and the External Auditor's response to questions from the Committee.

## **10. Reporting responsibilities**

- 10.1 The Chair of the Committee shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
  - 10.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
  - 10.1.2 its assessment of the effectiveness of the external audit process, the approach taken to the appointment or reappointment of the External Auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
  - 10.1.3 any other issues on which the Board has requested the Committee's opinion.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall compile a report on its activities to be included in the Company's Annual Report. The Annual Report should include
  - 10.3.1 an explanation of how the Committee has addressed the independence and effectiveness of the external audit process and the 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;
  - 10.3.2 an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor;
  - 10.3.3 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

10.3.4 all other information requirements set out in the Code.

- 10.4 In compiling the reports referred to in 10.1 and 10.3, the Committee should 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 long-term viability statement. The report to shareholders need not repeat information disclosed elsewhere in the Annual Report, but could provide cross-references to that information.
- 10.5 The outcome of the review carried out of the effectiveness of the framework that is used to monitor the internal controls and risk management systems of the Company and its subsidiaries.
- 10.6 Confirmation that the Committee has carried out a robust assessment of the principal risks facing the Company, a description of those risks and an explanation as to how they are being managed or mitigated;
- 10.7 Taking into account the Company's current position and principal risks, the Committee's assessment of the prospects of the Company, how it has carried out that assessment over what period and why that period is considered to be appropriate. The Committee should also state whether or not it has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment drawing the Board's attention to any qualifications or assumptions as necessary.

## **11. Authority**

The Committee is authorised to:

- 11.1 investigate any matter which it regards as relevant to its duties;
- 11.2 seek any information it requires from any employee of the Company in order to perform its duties;
- 11.3 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 11.4 call any employee to be questioned at a meeting of the Committee as and when required; and
- 11.5 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.