

## 1. Membership

- 1.1. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee. The Committee shall be made up of at least 3 members.
- 1.2. All members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Chairman of the Board shall not be a member of the Committee.
- 1.3. Only members of the Committee have the right to attend Committee meetings. However, other individuals including but not limited to the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, other Directors, the Group Head of RBP and Compliance, the Head of Internal Audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate in the opinion of the Committee Chairman or the majority of its members.
- 1.4. The external auditors will be invited to attend meetings of the Committee on a regular basis.
- 1.5. Appointments to the Committee shall be for a period of up to three years (subject to the election and re-election provisions in the Company's constitution and the UK Corporate Governance Code), which may be extended by no more than two further periods of up to three years each, provided the director remains independent.
- 1.6. The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to Chair the meeting.

## 2. Secretary

The Company Secretary or their 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

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.

## 4. Frequency of Meetings

- 4.1. The Committee shall meet quarterly and otherwise as required.
- 4.2. Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the Head of Internal Audit.

## **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 external or internal auditors 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 5 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 resolutions 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 and, once agreed, to all members of the Board, unless it would be inappropriate to do so in the opinion of the Committee Chairman.

## **7. Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any 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 recommend to the board for approval the financial statements of the Group, including its annual and half-yearly reports, preliminary results' announcements 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. The Committee shall:

- 8.1.2.1. approve the accounting policies used by the Group and their consistent application across the Group;
- 8.1.2.2. approve the methods used to account for significant or unusual transactions where different approaches are possible;
- 8.1.2.3. approve the disclosure in the Group's financial reports and the context in which statements are made;
- 8.1.2.4. approve all material information presented with the financial statements, such as the strategic report and the corporate governance statement (insofar as it relates to the audit and risk management);

- 8.1.2.5. review whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 8.1.2.6. review, prior to approval by the Board, the directors' assessment and statement as to whether they consider it appropriate to adopt the going concern basis of accounting in preparing financial statements and the identification of material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of the approval of such financial statements; and
- 8.1.2.7. review the annual financial statement of the pension funds where not reviewed by the Board as a whole.

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 position and performance, business model and strategy.

## **8.3. Internal Controls and Risk Management Systems**

The Committee shall:

- 8.3.1. agree the processes to enable the monitoring of the Group's internal controls and risk management systems (including its procedures for detecting fraud);
- 8.3.2. carry out, at least annually, a review of the effectiveness of the Group's internal controls and risk management systems, (including its procedures for identifying and assessing principal risks to the Group's business and the management and mitigation of those risks) and confirm to the Board that such a review has been carried out;
- 8.3.3. review and approve the statements to be included in the annual report concerning internal controls and risk management, prior to consideration by the Board; and
- 8.3.4. review, prior to approval by the Board, the directors' assessment and statement as to whether, taking account of the Company's position and principal risks, they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period covered by that assessment.

## **8.4. Compliance and Whistleblowing**

The Committee shall:

- 8.4.1. review the Group'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 Group's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 8.4.3. approve the appointment and removal of the Group Head of RBP and Compliance; and
- 8.4.4. review regular reports from the Group Head of RBP and Compliance.

## **8.5. Internal Audit**

The Committee shall:

- 8.5.1. monitor and review the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- 8.5.2. approve the appointment and removal of the Head of Internal Audit;
- 8.5.3. approve the remit of the internal audit function, as set out in the Internal Audit Charter, 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 standing and is free from management or other restrictions;
- 8.5.4. approve the annual internal audit plan;
- 8.5.5. regularly receive updates on the findings and recommendations of the internal auditors;
- 8.5.6. review and monitor management's responsiveness to the findings and recommendations of the Head of Internal Audit;
- 8.5.7. meet the Head of Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out;
- 8.5.8. carry out an annual assessment of the internal audit function; and
- 8.5.9. ensure the Head of Internal Audit has direct access to the Chairman of the Board and to the Committee Chairman, and is accountable to the Committee.

## **8.6. External Audit**

The Committee shall:

- 8.6.1. 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;
- 8.6.2. subject to transitional provisions published by the Financial Reporting Council and by the Competition & Markets Authority, ensure that at least once every ten years the audit services contract is put out to competitive 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;

- 8.6.3. initiate and supervise any competitive tender process and oversee the selection process for a new auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 8.6.4. oversee the relationship with the external auditor including (but not limited to):
  - 8.6.4.1. negotiating and approving their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 8.6.4.2. negotiating and approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.6.4.3. 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;
  - 8.6.4.4. satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company and its subsidiaries (other than in the ordinary course of business);
  - 8.6.4.5. approving a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - 8.6.4.6. monitoring the auditor's processes for maintaining independence, its compliance with relevant ethical and professional guidance on the rotation of audit partners and the level of fees paid by the Company;
  - 8.6.4.7. assessing annually their qualifications, expertise and resources, independence and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
  - 8.6.4.8. ensuring co-ordination with the activities of the internal audit function; and
  - 8.6.4.9. 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.
- 8.6.5. meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- 8.6.6. approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;

8.6.7. review the finding of the audit with the external auditor. This shall include but not be limited to, the following:

- 8.6.7.1. a discussion of any major issues which arose during the audit;
- 8.6.7.2. the auditor's explanation of how risks to audit quality were addressed;
- 8.6.7.3. key accounting and audit judgements;
- 8.6.7.4. the auditor's view of their interactions with senior management;
- 8.6.7.5. levels of errors identified during the audit; and
- 8.6.7.6. the effectiveness of the audit process.

The Committee shall also:

- 8.6.8. review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.6.9. review the management letter and management's response to the auditor's findings and recommendations; and
- 8.6.10. approve and implement a 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. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3. The Committee shall compile a report to shareholders on its activities to be included in the Group's Annual Report, describing the Committee's work and how it has discharged its responsibilities. Such report shall include:
  - 9.3.1. the significant issues that the Committee has considered in relation to the financial statements and how those issues were addressed, having regard to matters communicated to it by the external auditor. The Committee will need to exercise judgement in deciding which of the issues it considers are significant, but should include at least those matters that have informed the Board's going concern and business viability assessments;
  - 9.3.2. an explanation of how the Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted, and any contractual obligations that have acted to restrict the Committee's choice of external auditor;
  - 9.3.3. if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded;

9.3.4. where the Company has not completed a competitive audit tender process in relation to five consecutive financial years, a statement identifying when the Company proposes that it will next complete a competitive audit tender process, together with the Committee's reasons as to why completing the process at the proposed time is in the best interests of the Company's shareholders;

9.3.5. a statement of compliance with the provisions of the Competition & Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014; and

9.4 any other issues on which the Board has requested the Audit Committee's opinion.

## **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 UK Corporate Governance 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. be responsible for co-ordination of the internal and external auditors;
- 10.5. oversee any investigation of activities which are within its terms of reference and act for internal purposes as a court of the last resort; and
- 10.6. at least once a year, review its own performance (or arrange an external evaluation of its own performance), constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

## **11. Authority**

The Committee is authorised:

- 11.1. to 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, outside legal or other professional advice on any matter it believes it necessary to do so; and
- 11.3. to call any employee to be questioned at a meeting of the Committee as and when required.

Reviewed and approved by the Board on 8 June 2017.