

## AUDIT COMMITTEE'S TERMS OF REFERENCE

### 1. Constitution

The Committee was constituted at a full meeting of the board of directors held on 28 June 2018 in accordance with the articles of association of the company.

### 2. Duties and terms of reference

2.1 The Committee should carry out the duties below for the parent company, major subsidiaries and the group as a whole as appropriate.

2.2 The Committee shall monitor the integrity of the financial statements of the company, including its annual and half yearly reports, interim management statements, preliminary results' announcements (if any) and any other formal announcement relating to its financial performance, reviewing and reporting to the board of directors on significant financial reporting issues and judgements which they contain having regard to the matter communicated to it by the auditor.

2.3 The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the company and its group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the strategic report and any corporate governance statement (insofar as it relates to the audit and risk management).

2.4 If the Committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board of directors.

2.5 Where requested by the board of directors, the Committee should review the content of the annual report and accounts and advise the board of directors 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 the Committee should also

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advise the board of directors on whether the annual report and accounts informs the board's statement in the annual report on these matters.

- 2.6 The Committee shall, unless expressly addressed by a separate risk committee comprised of independent directors or by the directors themselves:
- (a) keep under review the company's internal financial controls and internal control and risk management systems; and
  - (b) review and approve the statements to be included in the annual report concerning internal controls and risk management.
- 2.7 The Committee shall:
- (a) 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;
  - (b) review the company's procedures for detecting fraud;
  - (c) review the company's systems and controls for the prevention of bribery and receive reports on non-compliance;
  - (d) review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the company's anti-money laundering systems and controls; and
  - (e) review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the company's compliance function.
- 2.8 The company does not currently have an internal audit function. The decision on whether or not to set up an internal audit function shall be made by the board of directors on the recommendation of the Committee (which shall consider annually whether there is a need for an internal audit), based on the growth of the company, the scale, diversity and complexity of the company's activities and the number of employees, as well as cost and benefit considerations. If the board of directors recommends the appointment of an internal audit function, the Committee shall:
- (a) monitor and assess the role and the effectiveness of the company's internal audit function in the context of the company's overall risk management system and the work of compliance, finance and the external auditor;
  - (b) approve the appointment and removal of the head of the internal audit function;

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- (c) review and approve the role and mandate of the internal audit function, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- (d) ensure internal audit has unrestricted scope, the necessary resources and appropriate access to information to enable it to perform its function effectively, 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 the relevant professional standards for internal auditors;
- (e) ensure the internal auditor has direct access to the chairperson of the board of directors and the chairperson of the Committee and is accountable to the Committee;
- (f) review and approve the annual internal audit plan and ensure it is aligned to the key risks of the company's business and receive regular reports on work carried out;
- (g) review and assess the annual internal audit work plan and receive a report on the results of the internal auditor's work;
- (h) determine whether it is satisfied with the quality, experience and expertise of internal audit is appropriate for the business;
- (i) consider whether an independent, third party review of processes is appropriate;
- (j) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function; and
- (k) meet the head of internal audit at least once a year, without management being present.

#### 2.9 The Committee shall:

- (a) consider and make recommendations to the board of directors, 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. If an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process.
- (c) oversee the relationship with the external auditor including (but not limited to):
  - (i) approval of their remuneration, including 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;

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- (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements (including any relevant ethical standard) and the relationship with the auditor as a whole, including any threats to the auditors' independence and safeguards applied to mitigate those threats including the provision of any non-audit services;
  - (iv) 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;
  - (v) agreeing with the board of directors a policy on the employment of former employees of the company's auditor taking into account any relevant ethical standard and legal requirements, then monitoring the implementation of this policy;
  - (vi) monitoring the auditor's compliance with relevant ethical, legal regulatory and professional guidance on the rotation of audit partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vii) 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;
  - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (ix) 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 on that evaluation.
- 2.10 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.
- 2.11 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.

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- 2.12 Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (a) a discussion of any major issues which arose during the audit;
  - (b) any key accounting and audit judgements;
  - (c) the auditor's explanation of how the risks to audit quality were addressed;
  - (d) the auditor's view of their interactions with senior management;
  - (e) levels of errors identified during the audit; and
  - (f) the effectiveness of the audit.
- 2.13 Review any representation letter(s) requested by the external auditor before they are signed by management.
- 2.14 Review the management letter and management's response to the auditor's findings and recommendations.
- 2.15 Review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor and the auditor's response to questions from the Committee;
- 2.16 Develop and implement a policy on the supply 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:
- (a) threats to the independence and objectivity of the external auditor and any safeguards in place;
  - (b) the nature of the non-audit services;
  - (c) whether the external audit firm is the most suitable supplier of the non-audit service;
  - (d) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - (e) the criteria governing compensation.
- 2.17 The chairperson of the Committee shall report formally to the board of directors on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the board of directors on how it has discharged its responsibilities. The report shall include:

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- (a) the significant issues that it had considered in relation to the financial statements and how these were addressed;
  - (b) the assessment of the effectiveness of the external audit process and its recommendations on the appointment/reappointment of the external auditor; and
  - (c) any other issues on which the board of directors has requested the Committee's opinion.
- 2.18 The Committee shall make whatever recommendations to the board of directors it deems appropriate on any area within its remit where action or improvement is needed.
- 2.19 The Committee shall compile a report to shareholders on its activities to be included in the company's annual report. The report shall include an explanation of how the Committee has addressed the effectiveness of the external and internal 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.
- 2.20 In compiling the reports referred to in 2.15 and 2.17, 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 of director's assessment of whether the company is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
- 2.21 The Committee shall:
- (a) have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
  - (b) 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;
  - (c) give due consideration to applicable laws and regulations, the provisions of the QCA Corporate Governance Code and the requirements of the London Stock Exchange's rules for AIM companies as appropriate;
  - (d) be responsible for co-ordination of the internal and external auditors;
  - (e) oversee any investigation of activities which are within its terms of reference; and
  - (f) arrange for periodic review of its own performance and, at least once a year, 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 of directors for approval.

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2.22 To consider such other matters as may be requested by the board of directors.

### **3. Membership**

3.1 The members of the Committee shall be appointed by the board of directors, on the recommendation of the Nomination Committee in consultation with the chairperson of the Committee. All of the members of the Committee should be non-executive directors who are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The committee shall, where possible, include at least one member of the remuneration committee.

3.2 The Committee shall have at least two members and at least one member should have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies.

3.3 At the date of formation of the Committee, it has been agreed that the members of the Committee will be Graham McInnes and John May. The board of directors shall appoint a Committee chairperson. In the absence of a Committee chairperson, the remaining Committee members present shall elect one of themselves as chairperson.

3.4 A quorum shall be any one member of the Committee.

### **4. Voting arrangements**

4.1 Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Committee.

4.2 If a matter that is considered by the Committee is one where a member of the Committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.

4.3 Save where he has a personal interest, the chairperson of the Committee will have a casting vote.

### **5. Attendance at meetings**

5.1 The Committee will meet at least three times a year at appropriate intervals in the financial reporting and audit cycle. The Committee may meet at other times during the year as agreed between the members of the Committee or as required.

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- 5.2 Outside of the formal meeting programme, the Committee chairperson will maintain a dialogue with key individuals involved in the company's governance, executive directors, the finance director, the external audit lead partner, the company secretary and any head of internal audit.
- 5.3 Only members of the Committee have the right to attend Committee meetings. However, the finance director, internal auditors and external auditors will be invited to 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.
- 5.4 The company's external auditors may be required to attend Committee meetings, but at least for part of the meeting not in the presence of any of the executive directors of the company, with a view to consulting with the Committee.
- 5.5 The company secretary or his nominee shall be 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 all issues.

### **6. Notice of meetings**

- 6.1 Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of the matters to be discussed at the meeting shall be forwarded to each member and any other person required to attend [and all other non-executive directors] no later than [five] working days before the date of the meeting. Any supporting papers shall be sent to each member of the Committee and to other attendees (as appropriate) at the same time.
- 6.3 Meetings of the Committee may be conducted when the members are physically present or in the form of either a video or audio conference.
- 6.4 Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way

### **7. Authority**

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. The Committee is authorised by the board of directors to examine any activity within its terms of reference and is authorised to have unrestricted access to the company's external auditors and to obtain, at the company's expense, professional advice on any matter within its

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terms of reference. The Committee is authorised to seek any information it requires from any employee or director, and all such employees or directors will be directed to co-operate with any request made by the Committee. The Committee has the right to publish in the company's annual report, details of any issues that cannot be resolved between the Committee and the board of directors.

### **8. Reporting**

The proceedings and resolutions of meetings of the Committee, including the names of those present and in attendance, shall be minuted. Draft minutes of each meeting will be circulated promptly to all members of the Committee. Once approved, the minutes of each meeting will be circulated to all other members of the board of directors unless it would be inappropriate to do so in the opinion of the Committee chairperson.

### **9. Evaluation of Performance**

The Committee shall undertake to evaluate its own performance and effectiveness on a periodic basis.

### **10. General matters**

- 10.1 The chairperson of the Committee should make himself or herself available at each Annual General Meeting of the company to answer questions concerning the Committee's work.
- 10.2 The recommendations of the Committee minutes must be approved by the board of directors before they can be implemented.
- 10.3 The Committee shall work and liaise as necessary with all other board committees, taking particular account of the impact of risk management and internal controls being delegated to different committees.
- 10.4 The Committee shall make available to shareholders these terms of reference.