

# Audit and Risk Committee Terms of Reference

Version 7

**Approved by Board: 08/03/2023**  
**Approved by Parent: 17/04/2023**

## **A4 - Terms of reference for the Audit and Risk Committee**

### **1 Constitution**

- 1.1 The Audit and Risk Committee (the Committee) operates as a Committee of the Board of Directors of the Company.
- 1.2 The Committee shall be subject to the limitations contained in the Board terms of reference and shall seek the consent of the Company's parent where required under the Board terms of reference.
- 1.3 The Committee shall make available to the Company's parent these terms of reference.

### **2 Duties and Terms of Reference**

#### **2.1 Financial reporting**

- 2.1.1 the Committee shall monitor the integrity of the financial statements of the Company, including its annual reports and 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;
- 2.1.2 in particular, the Committee shall review and challenge where necessary:
  - 2.1.2.1 the application of significant accounting policies and any changes to them;
  - 2.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 2.1.2.3 whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
  - 2.1.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
  - 2.1.2.5 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management;
- 2.1.3 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; and
- 2.1.4 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.

#### **2.2 Narrative reporting**

- 2.2.1 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 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 FRC UK Corporate Governance Code (the Code).

## 2.3 Risk

The Committee shall:

- 2.3.1 advise the Board on the Company's overall risk appetite, tolerance and strategy, taking account authoritative sources that may be relevant to the Company;
- 2.3.2 oversee and advise the board on the current risk exposures of the company and future risk strategy;
- 2.3.3 in relation to risk assessment
  - 2.3.3.1 keep under review the Company's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used;
  - 2.3.3.2 review regularly and approve the parameters used in these measures and the methodology adopted; and
  - 2.3.3.3 set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance;
- 2.3.4 review the Company's capability to identify and manage new risk;
- 2.3.5 if requested to provide qualitative and quantitative advice to the acquisition committee on the risk aspects of its activities and their implications with respect to the risk appetite and tolerance of the Company, taking independent external advice where appropriate and available;
- 2.3.6 review reports on any material breaches of risk limits and the adequacy of proposed action;
- 2.3.7 keep under review the effectiveness of the Company's internal financial controls and internal controls and risk management systems and review and approve the statements to be included in the annual report concerning internal controls and risk management; and
- 2.3.8 if requested, provide qualitative and quantitative advice to the remuneration committee on risk weightings to be applied to performance objectives incorporated in executive remuneration.

## 2.4 Compliance, whistleblowing and fraud

The Committee shall:

- 2.4.1 review and report to the Board the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns. The Committee shall, on behalf of the Board ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;

- 2.4.2 review the Company's procedures for detecting fraud and receive reports on any instances of fraudulent activity or attempted fraud and the action taken as a consequence;
- 2.4.3 review the Company's systems and controls for the prevention of bribery and receive reports of any instances of bribery or attempted bribery and action taken as a result;
- 2.4.4 review regular reports from the anti-money laundering officer regarding the adequacy and effectiveness of the Company's anti-money laundering systems and controls and receive reports on any non-compliance and action taken to remedy;
- 2.4.5 receive regular reports from the Company's data protection officer regarding the Company's compliance with the general data protection regulation (GDPR) and any instances of non-compliance, including data breaches, and the actions taken as a consequence; and
- 2.4.6 review regular reports from the compliance officer and keep under review the adequacy and effectiveness on other aspects of the Company's compliance function.

## 2.5 Internal audit

The Committee shall:

- 2.5.1 approve the appointment or termination of appointment of the head of internal audit and risk;
- 2.5.2 review and approve the role and mandate of internal audit, 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;
- 2.5.3 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;
- 2.5.4 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;
- 2.5.5 ensure the internal auditor has direct access to the Board chair and to the Committee chair, providing independence from the executive and accountability to the Committee;
- 2.5.6 carry out an annual assessment of the effectiveness of the internal audit function; and as part of this assessment:
  - 2.5.6.1 meet with the head of internal audit and risk without the presence of management to discuss the effectiveness of the function;
  - 2.5.6.2 review and assess the annual internal audit work plan;

- 2.5.6.3 receive a report on the results of the internal auditor's work;
  - 2.5.6.4 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business;
  - 2.5.6.5 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
  - 2.5.6.6 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
  - 2.5.6.7 consider whether an independent, third party review of processes is appropriate;
- 2.5.7 carry out an external quality assurance exercise in accordance with the internal audit professional standards to ensure the quality of the internal audit function.

## **2.6 External audit**

- 2.6.1 consider and make recommendations to the Board, in relation to the appointment, re-appointment and removal of the Company's external auditor;
- 2.6.2 ensure that at least 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 procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- 2.6.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 2.6.4 oversee the relationship with the external auditor. In this context the Committee shall:
  - 2.6.4.1 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;
  - 2.6.4.2 approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 2.6.4.3 assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the auditor Ethical Standard and other professional requirements and the Company's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services;
  - 2.6.4.4 satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
  - 2.6.4.5 agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account the

- auditor Ethical Standard and legal requirements, and monitor the application of this policy;
- 2.6.4.6 monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the auditor Ethical Standard, including the guidance on the rotation of audit partner and staff;
  - 2.6.4.7 monitor the level of fees paid by the Company to the external auditor compared to the 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;
  - 2.6.4.8 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;
  - 2.6.4.9 seek to ensure coordination of the external audit with the activities of the internal audit function;
  - 2.6.4.10 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;
  - 2.6.4.11 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:
    - 2.6.4.11.1 threats to the independence and objectivity of the external auditor and any safeguards in place;
    - 2.6.4.11.2 the nature of the non-audit services;
    - 2.6.4.11.3 whether the external audit firm is the most suitable supplier of the non-audit service;
    - 2.6.4.11.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
    - 2.6.4.11.5 the criteria governing compensation;
  - 2.6.4.12 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;
  - 2.6.4.13 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;
  - 2.6.4.14 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
    - 2.6.4.14.1 a discussion of any major issues which arose during the audit;
    - 2.6.4.14.2 the auditor's explanation of how the risks to audit quality were addressed;
    - 2.6.4.14.3 key accounting and audit judgements;
    - 2.6.4.14.4 the auditor's view of their interactions with senior management; and
    - 2.6.4.14.5 levels of errors identified during the audit;

- 2.6.4.15 review any representation letter(s) requested by the external auditor before they are signed by management;
- 2.6.4.16 review the management letter and management's response to the auditor's findings and recommendations; and
- 2.6.4.17 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.

### **3 Membership**

- 3.1 The Committee shall comprise at least two members. Members of the Committee shall be appointed by the Board, in consultation with the chair of the Committee.
- 3.2 All members of the Committee shall be non-executive directors, the majority of whom shall be independent as defined by the Code. At least one of the members shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the sector in which the Company operates. The chair of the Board shall not be a member of the Committee.
- 3.3 Only members of the Committee have the right to attend committee meetings. However, the chief executive officer, the chief financial officer, the head of internal audit and risk and the external audit lead partner will be invited to attend 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 and necessary.
- 3.4 The Board shall appoint the Committee chair. In the absence of the Committee chair and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

### **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 chair of the Committee will have a casting vote.

### **5 Attendance at meetings**

- 5.1 The Committee shall meet at least four times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 5.2 Outside of the formal meeting programme, the Committee chair, and to a lesser extent the other Committee member(s), will maintain a dialogue with key individuals involved in the Company's governance, including the Board chair, the chief executive officer, the chief financial officer, the external audit lead partner and the head of internal audit and risk.

5.3 The company secretary, or his or her 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.

5.4 The quorum necessary for the transaction of business shall be two members.

## **6 Notice of meetings**

6.1 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 the external audit lead partner or head of internal audit and risk 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 reports can be sent to members in electronic form.

## **7 Authority**

7.1 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.

7.2 The committee is authorised to:

7.2.1 seek any information it requires from any employee of the Company in order to perform its duties;

7.2.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;

7.2.3 call any employee to be questioned at a meeting of the Committee as and when required; and

7.2.4 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.

7.3 The recommendations of the Committee must be approved by the Board before they can be implemented.

## **8 Reporting**

8.1 The secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

8.2 Draft minutes of Committee meetings shall be agreed with the Committee chair and then circulated promptly to all members of the Committee, unless it would be inappropriate to do so in the opinion of the Committee.

8.3 The Committee chair 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:

- 8.3.1 the significant issues that it considered in relation to the financial statements (required under paragraph 2.1.1) and how these were addressed;
  - 8.3.2 its assessment of the effectiveness of the external audit process (required under paragraph 2.6.1), 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
  - 8.3.3 any other issues on which the Board has requested the Committee's opinion.
- 8.4 The Committee shall review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement.
  - 8.5 The Committee shall compile a report on its activities to be included in the Company's annual report. The report should include an explanation of how the Committee has addressed the effectiveness of the external 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; and all other information requirements set out in the Code.
  - 8.6 In compiling the reports referred to in 8.4 and 8.5, 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 viability statement. The report to Shareholders need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.
  - 8.7 The Committee shall 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.
  - 8.8 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 General Matters**

- 9.1 If an annual general meeting is held, the Committee chair should attend it to answer shareholder questions.

<b>Version</b>	<b>Amendments</b>	<b>Approved by Board</b>
1	Initial adoption	10/10/2018
2	Minor changes requested	27/11/2018
3	A change to membership	15/01/2019
4	Annual review	09/12/2020
5	Annual review	08/12/2021
6	Annual review	07/12/2022
7	DCS review	08/03/2023