

**Terms of Reference for the Audit Committee<sup>1</sup>**  
**Of**  
**Empresaria Group plc**

Dated: 18 August 2017

**1. Membership**

- 1.1. The committee shall comprise at least two<sup>2</sup> members. 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<sup>3</sup>.
- 1.2. All members of the committee shall be independent non-executive directors<sup>4</sup> 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.<sup>5</sup> The audit committee as a whole shall have competence relevant to the sector in which the company operates. The chairman of the board shall not be a member of the committee.<sup>6</sup> C.3.1 of the Code provides that in smaller companies the company chairman may be a member of, but not chair, the committee provided (s)he was independent on appointment as chairman.
- 1.3. Only members of the committee have the right to attend committee meetings. However, the external auditor and finance director 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.<sup>7</sup>
- 1.4. Appointments to the committee are made by the board and shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the committee.
- 1.5. 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 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.<sup>8</sup>

**3. Quorum**

The quorum necessary for the transaction of business shall be two members.<sup>9</sup>

**4. Meetings**

- 4.1. The committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.<sup>10</sup>

---

<sup>1</sup> Reflecting, as appropriate, the updated UK Corporate Governance Code published September 2012 and revised in April 2016 (the "Code"), the FRC Guidance published in April 2016 and ICSA guidance published 31/03/17

<sup>2</sup> Smaller companies (companies below the FTSE 350 index) two members.(Code provision C.3.1, FRC Guidance para 9)

<sup>3</sup> FRC Guidance, para 13

<sup>4</sup> Guidance on circumstances likely to affect independence is given in Code provision B.1.1 and FRC Guidance paragraph 14

<sup>5</sup> See FRC Guidance, para 15 on recommended experience and skills of members.

<sup>6</sup> Except on appointment, the Chairman of the company is not considered independent. Code provisions A.3.1, B.1.1 and footnote 5.

<sup>7</sup> FRC Guidance, para 20

<sup>8</sup> FRC Guidance, para 25

<sup>9</sup> As Code provision C.3.1 requires that at least one member of the committee has recent and relevant financial experience, and DTR 7.1.1.A R states that one member of the committee must have competence in accounting and/or auditing, it would be preferable for any quorum to include such member, whenever possible.

<sup>10</sup> FRC Guidance para 18 :The frequency and timing of meetings will differ according to the needs of the company; meetings should be organised so that attendance is maximised (for example by timetabling them to coincide with board meetings and/or risk committee meetings if the company has a separate risk committee).

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, the finance director, the external audit lead partner and the head of internal audit, where such a function exists.<sup>11</sup>

## 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 the external audit lead partner or head of internal audit 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 five 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 decisions 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 agreed with the committee chairman and then circulated promptly to all members of the committee. Once approved, minutes should be circulated to all other members of the board unless it would be inappropriate to do so in the opinion of the committee chairman.

## 7. **Annual General Meeting**

The committee chairman should attend the annual general meeting to answer shareholder questions on the committee's activities.<sup>12</sup>

## 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 monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, interim management statements, 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 auditor.<sup>13</sup>

8.1.2. In particular, the committee shall review and challenge where necessary:<sup>14</sup>

8.1.2.1. the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the company/group;

8.1.2.2. the methods used to account for significant or unusual transactions where different approaches are possible;

8.1.2.3. whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

8.1.2.4. the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and

8.1.2.5. all material information presented with the financial statements, such as the strategic report and the corporate governance statements relating to the audit and to risk management.

---

<sup>11</sup> FRC Guidance, para 22

<sup>12</sup> Code provision E.2.3 and FRC Guidance, para 85

<sup>13</sup> Code provision C.3.2 and FRC Guidance, para 32 and 83

<sup>14</sup> FRC Guidance, para 32 to 38

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.<sup>15</sup>

## 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 performance, business model and strategy.<sup>16</sup>

## 8.3. Internal controls and risk management systems<sup>17</sup>

The committee shall:

8.3.1. keep under review the adequacy and effectiveness of the company's internal financial controls and internal control and risk management systems;<sup>18</sup> and

8.3.2. review and approve the statements to be included in the annual report concerning internal controls, risk management and the viability statement.<sup>19</sup>

## 8.4. Compliance, whistleblowing and fraud<sup>20</sup>

The committee shall:

8.4.1. 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;<sup>21</sup>

8.4.2. review the company's procedures for detecting fraud;

8.4.3. review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.<sup>22</sup>

## 8.5. Internal audit

8.5.1. Where there is no internal audit function, the committee shall:

8.5.1.1. consider annually whether there is a need for an internal audit function;

8.5.1.2. make a recommendation to the board; and

8.5.1.3. the reasons for the absence of such a function should be explained in the relevant section of the Annual Report.<sup>23</sup>

8.5.2. Where there is an internal audit function, the committee shall:

8.5.2.1. approve the appointment or termination of appointment of the head of internal audit;<sup>24</sup>

8.5.2.2. review and approve the charter of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;<sup>25</sup>

---

<sup>15</sup> FRC Guidance, para 35

<sup>16</sup> Code provision C.3.4 and FRC Guidance para 37

<sup>17</sup> If the company has a separate risk committee review of internal controls and risk management systems could be included in the duties of that committee. See FRC Guidance 41

<sup>18</sup> Code provisions C.3.2 and FRC Guidance para 40

Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014) provides further guidance.

<sup>19</sup> Unless this is done by the board or risk committee. FRC Guidance para 44

<sup>20</sup> If the board has a separate risk committee, the duties of that committee could include whistleblowing, fraud, the prevention of bribery and procedures for compliance with the Modern Slavery Act 2015.

<sup>21</sup> Code provision C.3.5

<sup>22</sup> If the company has a separate risk committee prevention of bribery could be included in the duties of that committee.

<sup>23</sup> Code Provision C 3.6 and FRC Guidance 45, 46, 47 and 56

<sup>24</sup> FRC Guidance, para 52

<sup>25</sup> FRC Guidance, para 48

- 8.5.2.3. ensure the internal auditor has direct access to the board chairman and to the committee chairman, and is accountable to the committee;<sup>26</sup>
- 8.5.2.4. review and assess the annual internal audit plan;<sup>27</sup>
- 8.5.2.5. receive a report on the results of the internal auditor's work on a periodic basis;<sup>28</sup>
- 8.5.2.6. review and monitor management's responsiveness to the internal auditor's findings and recommendations;<sup>29</sup>
- 8.5.2.7. meet the head of internal audit at least once a year, without the presence of management;<sup>30</sup> and
- 8.5.2.8. monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system.<sup>31</sup>

## 8.6. External Audit

The committee shall:

- 8.6.1. consider and make recommendations to the board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor;<sup>32</sup>
- 8.6.2. 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 process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;<sup>33</sup>
- 8.6.3. if an auditor resigns, investigate the issues leading to this and decide whether any action is required;<sup>34</sup>
- 8.6.4. oversee the relationship with the external auditor including (but not limited to):
  - 8.6.4.1. recommendations on their remuneration, including both fees for audit and non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;<sup>35</sup>
  - 8.6.4.2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;<sup>36</sup>
  - 8.6.4.3. assessing annually their independence and objectivity taking into account relevant UK law, professional and regulatory requirements, the Ethical Standard<sup>37</sup> and the relationship with the auditor as a whole including any threats to the auditor's independence and the safeguards applied to mitigate those threats,<sup>38</sup> including the provision of any non-audit services;<sup>39</sup>
  - 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 (other than in the ordinary

---

<sup>26</sup> FRC Guidance, para 52

<sup>27</sup> FRC Guidance, para 49

<sup>28</sup> FRC Guidance, para 48

<sup>29</sup> FRC Guidance, para 53

<sup>30</sup> FRC Guidance, para 54

<sup>31</sup> FRC Guidance, para 49. If the board has a separate risk committee the duties of the committee could include review of the company's internal control and risk management systems.

<sup>32</sup> FRC Guidance para 58 and 60.

<sup>33</sup> FRC Guidance, para 59 Under Code provision C.3.8 there is a requirement for FTSE 350 companies to put the external contract out to tender at least every ten years.

<sup>34</sup> FRC Guidance, para 61

<sup>35</sup> FRC Guidance, para 63 and 65

<sup>36</sup> FRC Guidance, para 63 and 64

<sup>37</sup> FRC Ethical Standard June 2016

<sup>38</sup> FRC Guidance para 66

<sup>39</sup> FRC Guidance , para 71

course of business) which could adversely affect the auditor's independence and objectivity;<sup>40</sup>

- 8.6.4.5. agreeing with the board a policy on the employment of former employees of the company's auditor, taking into account the Ethical Standard<sup>41</sup> and monitoring the implementation of this policy;<sup>42</sup>
  - 8.6.4.6. monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner and staff, the level of fees paid by the company compared to the overall fee income of the firm, office and partner<sup>43</sup>, and assess these in the context of relevant legal, professional and regulatory requirements and the Ethical Standard;<sup>44</sup>
  - 8.6.4.7. assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process<sup>45</sup>, which shall include a report from the external auditor on their own internal quality procedures;
  - 8.6.4.8. seeking to ensure co-ordination of the external audit with the activities of the internal audit function, where such a function exists; and
  - 8.6.4.9. evaluating the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee;<sup>46</sup>
  - 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) and at least once a year, without management being present, to discuss the auditor's remit and any issues arising from the audit;<sup>47</sup>
  - 8.6.6. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;<sup>48</sup> and
  - 8.6.7. review the findings 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;<sup>49</sup>
    - 8.6.7.2. key accounting and audit judgements;<sup>50</sup>
    - 8.6.7.3. levels of errors identified during the audit;<sup>51</sup>
    - 8.6.7.4. the auditor's view of their interactions with senior management; and
    - 8.6.7.5. the effectiveness of the audit process<sup>52</sup>
- The committee shall also:
- 8.6.8. review any representation letter(s) requested by the external auditor before they are signed by management;<sup>53</sup>
  - 8.6.9. review the management letter and management's response to the auditor's findings and recommendations;<sup>54</sup> and
  - 8.6.10. 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, to avoid any threat to auditor

---

<sup>40</sup> FRC Guidance, para 66

<sup>41</sup> FRC Ethical Standard June 2016, Section 2

<sup>42</sup> FRC Guidance, para 69

<sup>43</sup> FRC Guidance, para 67 and 70

<sup>44</sup> FRC Guidance, FRC Ethical Standard June 2014, Section 4

<sup>45</sup> FRC Guidance, para 60

<sup>46</sup> FRC Guidance, para 62

<sup>47</sup> FRC Guidance, para 21

<sup>48</sup> FRC Guidance, para 75

<sup>49</sup> FRC Guidance, para 76

<sup>50</sup> FRC Guidance, para 76, Audit Quality: Practice aid for audit committees (May 2015) may assist in assessing the external auditor.

<sup>51</sup> FRC Guidance, para 76

<sup>52</sup> FRC Guidance, para 78 and 79

<sup>53</sup> FRC Guidance, para 77

<sup>54</sup> FRC Guidance, para 77

objectivity and independence, taking into account any relevant ethical guidance on the matter.<sup>55</sup>  
The policy should include consideration of the following matters:

- 8.6.10.1. specifying the types of non-audit service to be approved by the committee;
- 8.6.10.2. whether external audit firm is the most suitable supplier of the non-audit service
- 8.6.10.3. the fees for the non-audit services, both individually and in aggregate, relative to the audit fee;
- 8.6.10.4. the criteria governing compensation.<sup>56</sup>

## 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 and shall also formally report to the board on how it has discharged its responsibilities. The report shall include;
  - 9.1.1. The significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed;
  - 9.1.2. Its assessment of the effectiveness of the external audit process (required under paragraph 8.6.4.7) and its recommendation on the appointment or reappointment of the external auditor; and
  - 9.1.3. Any other issues on which the board has requested the committee's opinion.
- 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 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.<sup>57</sup>
- 9.4. In compiling the reports referred to in 9.1 and 9.3, 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 viability statement<sup>58</sup>. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.<sup>59</sup>

## 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;<sup>60</sup>
- 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;<sup>61</sup>
- 10.3. give due consideration to laws and regulations, the provisions of the Code and the requirements of the Listing Rules, 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;<sup>62</sup>
- 10.5. oversee any investigation of activities which are within its terms of reference;

<sup>55</sup> FRC Guidance, paras 71, 73 and 74

<sup>56</sup> FRC Guidance, para 72

<sup>57</sup> See also revisions to ISA 700 (UK and Ireland). The independent auditor's report on financial statements issued 4 June 2013 which reflect changes made to the Code in Sept 2012.

<sup>58</sup> FRC Guidance, para 82 and 44

<sup>59</sup> FRC Guidance, para 84

<sup>60</sup> Code provision B.5.2 and FRC Guidance, para 23

<sup>61</sup> Code provisions B.4, B.4.1 and B.4.2; and FRC Guidance paras 16 and 17

<sup>62</sup> FRC Guidance para 49

- 10.6. work and liaise as necessary with all other board committees; and
- 10.7. 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.<sup>63</sup>

11. **Authority**

The committee is authorised to:

- 11.1. seek any information it requires from any employee of the company in order to perform its duties;
- 11.2. obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;<sup>64</sup>
- 11.3. call any employee to be questioned at a meeting of the committee as and when required; and
- 11.4. 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.<sup>65</sup>

---

<sup>63</sup> Code principle B.6 and FRC Guidance para 81

<sup>64</sup> FRC Guidance, para 26

<sup>65</sup> FRC Guidance, para 30