



## **Terms of Reference: AUDIT COMMITTEE**

### **1. Membership**

- 1.1 Members of the committee shall be appointed by the board. The committee shall be made up of six members.
- 1.2 All members of the committee shall be independent non-executive directors. 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 such as the General Manager, Company Secretary, SLC Internal Audit Manager and representatives from the finance function and other areas of the business may be invited to attend all or part of any meeting as and when appropriate.
- 1.4 The external auditors will be invited to attend meetings of the committee as appropriate.
- 1.5 Appointments to the committee shall be for a period of up to three years.
- 1.6 The board shall appoint the committee chairman who shall be an independent nonexecutive director. 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**

- 2.1 The company secretary or their nominee shall act as the secretary of the committee.

### **3. Quorum**

- 3.1 The Committee quorum is set at 3 members.

### **4. Frequency of meetings**

- 4.1 The committee shall meet in accordance with key times in the audit and reporting timetable.

## 5. **Notice of meetings**

- 5.1 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 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 seven 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 of all meetings of the committee, including recording the names of those present and in attendance.
- 6.2 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of committee meetings shall be circulated promptly to all members of the committee and, once agreed, to all members of the board, unless a conflict of interest exists.

## 7. **Duties**

The committee should carry out the duties below for the parent company, trading subsidiary and the group as a whole, as appropriate.

### 7.1 Financial reporting

- 7.1.1 The committee shall consider matters such as the integrity of the financial statements of the company, including its annual report. The committee shall also receive summary financial statements and be advised of significant financial returns to regulators such as Companies House and OSCR.
- 7.1.2 The committee shall receive reports on the following where necessary
- the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
  - the methods used to account for significant or unusual transactions where different approaches are possible;
  - whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - the clarity of disclosure in the company's financial reports and the context in which statements are made;
  - all material information presented with the financial statements within the Annual report, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

7.2 Internal controls and risk management systems

7.2.1 The committee shall keep under review the effectiveness of the company's internal controls and risk management systems.

7.3 Whistle-blowing and fraud

7.3.1 The committee shall review the company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

7.3.2 The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

7.3.3 The committee shall review procedures for detecting fraud.

7.4 Internal audit

7.4.1 The committee shall receive reports as appropriate on

- the service level agreement pertaining to the provision of the internal audit function by SLC
- the annual internal audit plan
- internal audit assignments and recommendations made by the internal auditor
- management's responses to audit findings and
- meet the SLC internal audit manager to discuss the Internal Audit annual report and any issues arising from the internal audits carried out.

7.5 External Audit

7.5.1 The committee shall consider and make recommendations to the board, in relation to the appointment, re-appointment and removal of the company's external auditor. The committee receive reports on selection process for new auditors. If an auditor resigns the committee shall review the issues leading to this and make recommendation on whether any action is required.

7.5.2 The committee shall receive information relating to the external auditor including

- details of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
- their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
- 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;
- the auditor's compliance with relevant ethical 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

- co-ordination with the activities of the internal audit function.

7.5.3 The committee shall be invited to meet with the external auditor to discuss any issues arising from the annual audit. This shall include matters such as:

- a discussion of any major issues which arose during the audit
- any accounting and audit judgements
- levels of errors identified during the audit

7.5.4 The committee shall receive a copy of any representation letter(s) requested by the external auditor.

7.5.5 The committee shall receive a copy of the management letter and management's response to the auditor's findings and recommendations

7.6. Reporting responsibilities

7.6.1 The committee chairman shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities.

7.6.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.