

# **Sweett Group plc - Audit Committee Terms of Reference - November 2011**

## **1. OBJECTIVES**

- 1.1 To increase shareholder confidence and to ensure the credibility and objectivity of published financial information.
- 1.2 To assist the Board in meeting its financial reporting responsibilities.
- 1.3 To assist the Board in ensuring the effectiveness of the Company's internal accounting and financial controls.
- 1.4 To strengthen the independent position of the Company's external auditors by providing channels of communication between them and the non-executive directors.
- 1.5 To review the performance of the Company's external and internal auditing functions.

## **2. REMIT AND AUTHORITY**

- 2.1 The Audit Committee is a sub-committee of the Board of Directors and exercises such powers of the Board as have been delegated to it, and is answerable to the Board and will report to it on a regular basis. The Board recognises that the function of the Audit Committee is oversight. In fulfilling their responsibilities it is recognised that members of the Audit Committee are not full time employees and are not performing the function of auditors or accountants.
- 2.2 In particular the Audit Committee has authority to carry out the following duties:
  - 2.2.1 To make recommendations to the Board on the appointment of the external auditors, the audit fee and any questions of resignation or dismissal relating to the auditors;
  - 2.2.2 To review the half-year and annual financial statements and reports thereon, of the Company before their submission to the Board;
  - 2.2.3 To enter into discussions with external auditors concerning the nature and scope of the audit; to monitor the co-ordination of the audit where more than one firm is involved; to monitor and review any problems or reservations arising from the audit; and to discuss any matters which the external auditor wishes to discuss, without executive Board members present;
  - 2.2.4 To consider the formal disclosure and other representations made by the Board to the external auditors as part of the audit process and to recommend their approval to the Board;

- 2.2.5 To review the results and cost effectiveness of the audit and the independence and objectivity of the external auditors;
- 2.2.6 To review the external auditors' management letter and management's response;
- 2.2.7 To consider communications from the external auditors on audit planning and findings and on material weaknesses in accounting and internal control systems which have come to the auditors' attention;
- 2.2.8 To review and discuss with management and auditors the preliminary results, interim information and annual financial statements before submission to the Board, focusing particularly on:
  - (a) The quality and acceptability of the accounting policies and practices and financial reporting disclosures and changes thereto;
  - (b) Areas involving significant judgement, estimation or uncertainty;
  - (c) Material misstatements detected by the auditors that individually or in aggregate have not been corrected and management's explanations as to why they have not been adjusted;
  - (d) The basis for the going concern assumption;
  - (e) Compliance with financial reporting standards and relevant financial and governance reporting requirements;
- 2.2.9 To discuss any difficulties, reservations or other matters arising from the external auditors' interim and final audits (in the absence of management, where necessary);
- 2.2.910 To review, prior to its consideration by the Board, the external auditors' report to the directors and management's response;
- 2.2.11 To consider the treatment of complaints or comments received by the Company from any source, but particularly including external regulatory authorities, regarding financial reporting, accounting and other disclosure matters. To ensure that procedures are in place that any such complaints and comments are referred to the Audit Committee expeditiously. 2.2.12 To review the Company's internal financial controls and in particular to review:
  - (a) The policies and overall process for identifying and assessing business risks and managing their impact on the Company;

- (b) Regular assurance reports from management, internal audit, external audit and others on the operational effectiveness of matters related to risk and control; and
  - (c) The timeliness of, and reports on, the effectiveness of corrective action taken by management.
- 2.2.13 To consider any necessary disclosure implications of the process that has been applied by the Board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts;
- 2.2.14 To:
- a) Consider the appointment, terms of reference and changes to the internal audit function whether internal or outsourced. ;
  - (b) Review and discuss the scope of work of the internal audit function, the plans, the issues identified as a result of its work and how management is addressing these issues;
  - (c) Ensure that the function is adequately supported , and has appropriate authority and standing within the Company; and
  - (d) Review co-ordination between the internal and external auditors and (where relevant) the other risk management activities in the group.
- 2.2.15 Where the internal audit function is outsourced, to consider annually whether there is a need for the function to be outsourced or internalised;
- 2.2.16 To review any significant findings of internal investigations into control weaknesses, fraud or misconduct and management's response (in the absence of management, where necessary);
- 2.2.17 To consider the disclosure about the role, activities and comments of the Audit Committee included in the annual report;
- 2.2.18 To review other disclosures or documents as determined by the Board;
- 2.2.19 To consider other topics, as defined by the Board, such as the Company's policies for preventing or detecting fraud, its code of corporate conduct/business ethics, or the policies for ensuring that the Company complies with relevant regulatory and legal requirements;
- 2.2.20 To review arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;

2.2.21 To ensure that arrangements are in place for investigation of possible impropriety in matters of financial reporting or other matters, focusing particularly on the:

- (a) Proportionality and independence of these investigations; and
- (b) Appropriateness of follow-up action by the Audit Committee;

2.2.22 At least annually to review and update its own Terms of Reference requesting Board approval for all proposed changes and, at appropriate intervals, evaluate its own performance against its Terms of Reference and best practice within the context of the Board evaluation procedures..

2.3 The Audit Committee is authorised to obtain external professional (including legal) advice in pursuance of its duties at the cost of the Company.

2.4 If the auditors also supply non-audit services to the Company, the Audit Committee should:

2.4.1 Keep the nature and extent of such services under review bearing in mind the requirement to safeguard the independence of the external auditors. Any proposed non-audit assignment with the external auditor where the fee is above a certain amount (currently £20000) should be agreed in advance by the Audit Committee. Where work of any amount that could give rise to a conflict of interest then this should also be agreed in advance with the Audit Committee

2.4.2 Take into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm including the recruiting of staff from the external auditor.

2.4.3 Report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken: and.

2.4.4 Receive and consider a letter from the external auditors annually confirming their independence.

### **3. MEMBERSHIP**

3.1 The Audit Committee shall have at least two members who shall be appointed by the Board and be drawn exclusively from the non-executive directors of the Company. A majority of these non-executive directors should be independent of the executive directors and management and also be free from any business or other relationship, which could materially interfere with the exercise of their independent judgement. The Chairman of the Audit Committee shall be appointed by the Board of the Company and shall be a non-executive director. In the absence of the Committee Chairman, the remaining members shall elect one of their number present to chair the meeting. The Chairman of the Board shall be allowed to be a

member of the Committee. The membership of this Committee is to be set out in the annual report and accounts of the Company. The quorum for any decisions shall be two members of whom at least one must be independent of the management of the Company.

- 3.2 At least one member of the Audit Committee must have recent and relevant financial experience.
- 3.3 Audit Committee meetings shall also be attended by the external auditor, the head of any internal audit department and the finance director of the Company. The Committee may invite any outsiders to attend its meetings, as it deems appropriate.
- 3.4 Other members of the Board or management may be invited by the Committee Chairman to attend meetings of the Audit Committee.
- 3.5 The Company Secretary will be the Secretary to the Audit Committee.

#### **4. PROCEDURE**

- 4.1 The Audit Committee shall meet not less than three times a year and at such other times, as circumstances require. The external or internal auditors may request a meeting if they consider it necessary.
- 4.2 The Audit Committee shall have discussions with the external and internal auditors at least once a year without any executive Board members or management being present. The Secretary of the Committee may attend these meetings at the discretion of the Chairman.
- 4.3 At least 7 days' notice of any meeting of the Audit Committee shall be given, although such notice period may be waived or shortened with the consent of all the members of the Audit Committee.
- 4.4 The minutes of the meeting of the Audit Committee, save for those of the private meetings with auditors at the discretion of the Committee Chairman, shall be made available to all members of the Board and to the external auditors.
- 4.5 The Audit Committee Chairman shall be available at the Annual General Meeting to answer questions relevant to the responsibilities of the Committee.

#### **5. MINUTES**

- 5.1 The minutes of the meetings of the Audit Committee shall be circulated to all members of the Board in the following Board pack;
- 5.2 The Audit Committee through its Chairman shall report formally at least once each year to the Board to discuss the relationship with the external and internal auditors.

**Approved by the Board of**

**Sweett Group plc on 30 November 2011**