

**DATED 24<sup>th</sup> NOVEMBER 2016**

**NICHOLS PLC**

**AUDIT COMMITTEE:  
TERMS OF REFERENCE**

**NICHOLS PLC**  
**("Company")**

**AUDIT COMMITTEE: TERMS OF REFERENCE**

Definitions

In these terms of reference:

**"Board"** means the board of directors of the Company;

**"Committee"** means the audit committee of the Board; and

**"Group"** means the Company and its subsidiary undertakings from time to time.

**1. INTRODUCTION**

The primary purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities. In performing its duties, the Committee will maintain effective working relationships with the Board, the Group's management and the external auditors. To perform his or her role effectively, each member of the Committee must be familiar with these terms of reference as well as the Group's business operations and risks.

**2. MEMBERSHIP**

2.1 The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board, in consultation with the chairman of the Committee.

2.2 At least two members of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accounting bodies.

2.3 Only members of the Committee have the right to attend Committee meetings. However, the external auditor, CEO and CFO will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or any part of any meeting as and when appropriate and necessary.

2.4 The Board shall appoint the chairman of the Committee. In the absence of the chairman of the Committee and/or an appointed deputy, the remaining members present shall elect one of their numbers to chair the meeting.

**3. SECRETARY**

The Company secretary or his/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.

**4. QUORUM**

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

## **5. FREQUENCY OF MEETINGS**

- 5.1 The Committee shall meet at least three times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.
- 5.2 Outside of the formal meeting programme, the chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the chief executive, the finance director and the external audit lead partner.

## **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 auditor 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 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.

## **7. MINUTES OF MEETINGS**

- 7.1 The secretary of the Committee shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance, unless a conflict of interest exists.
- 7.2 Draft minutes of Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board, unless a conflict of interest exists or, in the opinion of the chairman of the Committee, it would otherwise be inappropriate to do so.

## **8. AGM**

The chairman of the Committee shall attend the annual general meeting to answer shareholder questions on the Committee's activities.

## **9. DUTIES**

The Committee shall carry out the duties below.

### **9.1 Financial reporting**

- 9.1.1 The Committee shall monitor the integrity of the financial statements of the Group, including its annual and half-yearly reports and accounts, announcements of preliminary results 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.
- 9.1.2 In particular, the Committee shall review and challenge where necessary:
  - 9.1.2.1 the consistency of, and any changes to, significant accounting policies, both on a year-on-year basis and across the Group;

- 9.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
- 9.1.2.3 whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 9.1.2.4 the clarity and completeness of disclosure in the Group's financial reports and the context in which statements are made;
- 9.1.2.5 the Going Concern assumption

## **9.2 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 shareholder to assess the Group's performance, business model and strategy.

## **9.3 Internal controls and risk management systems**

The Committee shall:

- 9.3.1 keep under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems; and
- 9.3.2 review and approve any statements to be included in the Group's annual report concerning internal controls and risk management, unless this is undertaken by the Board.

## **9.4 Whistleblowing**

The Committee shall:

- 9.4.1 review the adequacy and security of the Group'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;
- 9.4.2 review the Group's procedures for detecting fraud; and
- 9.4.3 review the Group's systems and controls for the prevention of bribery and receive reports on non-compliance.

## **9.5 Internal audit**

The Committee shall consider annually whether there should be an internal audit function and make recommendations to the Board accordingly.

## **9.6 External audit**

The Committee shall:

- 9.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the Company's external auditor;
- 9.6.2 ensure that at least once 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;
- 9.6.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 9.6.4 oversee the relationship with the external auditor, including (but not limited to):
  - 9.6.4.1 recommendations on their remuneration, including both 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;
  - 9.6.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 9.6.4.3 assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
  - 9.6.4.4 agreeing with the Board a policy on the employment of former employees of the external auditor, and monitoring the implementation of this policy; and
  - 9.6.4.5 assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures.
- 9.6.5 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;
- 9.6.6 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; and
- 9.6.7 review the findings of the audit with the external auditor. This shall include, but not be limited to, the following:
  - 9.6.7.1 a discussion of any major issues which arose during the audit;
  - 9.6.7.2 key accounting and audit judgements;
  - 9.6.7.3 levels of errors identified during the audit; and

9.6.7.4 the effectiveness of the audit process.

The Committee shall also:

- 9.6.8 review any representation letter(s) requested by the external auditor before they are signed by management;
- 9.6.9 review the management letter and management's response to the external auditor's findings and recommendations; and
- 9.6.10 develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **10. REPORTING RESPONSIBILITIES**

- 10.1 The chairman of the Committee shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3 The Committee shall compile a report on its activities to be included in the Group's annual report.

## **11. OTHER MATTERS**

- 11.1 The Committee shall:
  - 11.1.1 have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
  - 11.1.2 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;
  - 11.1.3 give due consideration to laws and regulations, and the provisions of the AIM Rules for Companies, as appropriate;
  - 11.1.4 oversee any investigation of activities which are within its terms of reference;
  - 11.1.5 work and liaise as necessary with all other Board committees;

- 11.1.6 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; and
- 11.1.7 ensure that these terms of reference are made available by placing them on the Group's website.

## **12. AUTHORITY**

The Committee is authorised to:

- 12.1 seek any information it requires from any employee of the Group in order to perform its duties;
- 12.2 obtain, at the Group's expense, independent legal, accounting or other professional advice on any matter it believes necessary to do so;
- 12.3 call any employee to be questioned at a meeting of the Committee as and when required.