

# CURTIS BANKS GROUP PLC

## AUDIT COMMITTEE'S TERMS OF REFERENCE

### 1. CONSTITUTION AND MEMBERSHIP

- 1.1 The Committee was constituted at a full meeting of the board of directors held on 14 January 2015 in accordance with the articles of association of Curtis Banks Group plc (**Company**).
- 1.2 The board shall appoint the Committee chairman who shall be an independent non-executive 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 who would qualify under these terms of reference to be appointed to that position by the board.
- 1.3 The members of the Committee shall be appointed by the board of directors in consultation with the Committee chairman.. Appointments to the Committee shall be for a period of up to three years, which may be extended by no more than two additional periods of up to three years, provided the members continue to remain independent.
- 1.4 The Committee shall have at least two members and at least one member should have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies. The Chairman of the board shall not be a member of the Committee.
- 1.5 At the date of formation of the Committee, it has been agreed that the members of the Committee will be Bill Rattray, Chris Macdonald and Jules Hydleman and the Committee shall be chaired by Bill Rattrey. Subject to paragraph 1.6, a quorum shall be any two members of the Committee one of whom shall have recent and relevant financial experience.
- 1.6 Where a member of the Committee is not permitted under the articles of association of the Company to vote on or be counted in the quorum in relation to any matter or resolution to be considered by the Committee, the quorum necessary for the transaction of business shall be such number of members present (being not less than one member) who are permitted to vote on or be counted in the quorum in relation to such matter or resolution.

## 2. MEETINGS

- 2.1 The Committee will meet at least two times a year. The Committee may meet at other times during the year as agreed between the members of the Committee or as required.
- 2.2 Outside of the formal meeting programme, the Committee chairman will maintain a dialogue with key individuals involved in the Company's governance, including the chairman, chief executive, finance director, the external audit lead partner and head of internal audit.
- 2.3 Other directors or persons who are not members of the may be invited to attend all or part of any meeting as and when appropriate.
- 2.4 The Company's external auditors may be required to attend Committee meetings, but not in the presence of any of the executive directors of the Company, with a view to consulting with the Committee.
- 2.5 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 or internal auditors if they consider if necessary.
- 2.6 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of the matters to be discussed at the meeting shall be forwarded to each member and any other person required to attend no later than ten working days before the date of the meeting. Any supporting papers shall be sent to each member of the Committee and to other attendees (as appropriate) at the same time.
- 2.7 The company secretary or his or her nominee shall be 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 all issues.
- 2.8 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.
- 2.9 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.

- 2.10 Save where he has a personal interest, the Chairman of the Committee will have a casting vote.
- 2.11 The proceedings and resolutions of meetings of the Committee, including the names of those present and in attendance, shall be minuted. Draft minutes of each meeting will be circulated promptly to all members of the Committee. Once approved, the minutes of each meeting will be circulated to all other members of the board of directors unless it would be inappropriate to do so in the opinion of the Committee chairman.
- 2.12 A meeting of the members of the Committee may consist of a conference between Committee members some or all of whom are in different places provided that each Committee member may participate in the business of the meeting whether directly, by telephone or by any other electronic means which enables him:
- (a) to hear each of the other participating Committee members addressing the meeting; and
  - (b) if he so wishes, to address all of the other participating Committee members simultaneously.
- 2.13 A quorum is deemed to be present if at least the number of Committee members required to form a quorum may participate in the manner specified in paragraph 2.12 above in the business of the meeting.
- 2.14 A Committee meeting held in the manner specified in paragraph 2.12 above is deemed to take place at the place where the largest group of participating Committee members is assembled or, if no such group is readily identifiable, at the place from where the chairman of the meeting participates.

### **3. AUTHORITY**

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. The Committee is authorised by the board of directors to examine any activity within its terms of reference and is authorised to have unrestricted access to the Company's external auditors and to obtain, at the Company's expense, professional advice on any matter within its terms of reference. The Committee is authorised to seek any information it requires from any employee or director, and all such employees or directors will be directed to co-operate with any request made by the Committee. The Committee has the right to publish in the

Company's annual report details of any issues that cannot be resolved between the Committee and the board.

#### **4. DUTIES AND TERMS OF REFERENCE**

##### ***Financial Statements and Accounting Policies***

4.1 The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half yearly reports, interim management statements, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

4.2 The Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company and its group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the business review/operating and financial review and any corporate governance statement (insofar as it relates to the audit and risk management).

4.3 If the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the board of directors.

4.4 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

##### ***Internal Controls and Risk Management***

4.5 The Committee shall:

- (a) keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and
- (b) review and approve the statements to be included in the annual report concerning internal controls and risk management.

4.6 The Committee shall:

- (a) 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;.
- (b) review the Company's procedures for detecting fraud;
- (c) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- (d) review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- (e) review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the Company's compliance function.

***Audit***

4.7 The Committee shall:

- (a) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system;
- (b) approve the appointment and removal of the head of any internal audit function;
- (c) consider and approve the remit of any internal audit function and ensure it has necessary resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards;
- (d) ensure any internal auditor has direct access to the chairman of the board of directors and the chairman of the Committee and is accountable to the Committee;
- (e) review and assess the annual internal audit plan;
- (f) review periodically reports on the results from any internal auditor's work;
- (g) review and monitor management's responsiveness to the findings and recommendations of any internal auditor; and

- (h) meet the head of internal audit at least once a year, without management being present.

4.8 The Committee shall:

- (a) consider and make recommendations to the board, to be put to shareholders for approval at the Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for any new auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- (b) 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 oversee the selection process and further ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process.
- (c) oversee the relationship with the external auditor including (but not limited to):
  - (i) recommendations on their remuneration, including 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;
  - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (iii) assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - (iv) 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 course of business) which could adversely affect the auditor's independence and objectivity;
  - (v) agreeing with the board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;
  - (vi) monitoring 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;
  - (vii) assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process which shall

- include a report from the external auditor on their own internal quality procedures;
- (viii) seeking to ensure co-ordination with the activities of any internal audit function; and
  - (ix) evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market on that evaluation.
- (d) meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit.
  - (e) 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.
  - (f) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
    - (i) a discussion of any major issues which arose during the audit,
    - (ii) any key accounting and audit judgements,
    - (iii) levels of errors identified during the audit, and
    - (iv) the effectiveness of the audit.
  - (g) review any representation letter(s) requested by the external auditor before they are signed by management.
  - (h) review the management letter and management's responsiveness to the auditor's findings and recommendations.
  - (i) 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.

### ***Reporting***

4.9 The Chairman of the Committee 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:

- (a) the significant issues that it had considered in relation to the financial statements and how these were addressed;

- (b) the assessment of the effectiveness of the external audit process and its recommendations on the appointment/reappointment of the external auditor.
- 4.10 The Committee shall monitor and make whatever recommendations to the board it deems appropriate on the potential implications of legal actions being taken against the Company, the adequacy of arrangements for managing conflicts of interest and on such other matters as the board may request from time to time and any area within its remit where action or improvement is needed.
- 4.11 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report. The report shall include (but not be limited to) 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.

***Other Matters***

- 4.12 The Committee shall:
  - (a) have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
  - (b) 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;
  - (c) give due consideration to applicable laws and regulations, the provisions of the UK Corporate Governance Code, the QCA Corporate Governance Guidelines for Small and Mid Sized Quoted Companies, NAPF Corporate Governance Policy & Voting Guidelines for Smaller Companies, the Disclosure and Transparency Rules (to the extent applicable) and the requirements of the London Stock Exchange's rules for AIM companies as appropriate;
  - (d) be responsible for co-ordination of any internal and external auditors;
  - (e) oversee any investigation of activities which are within its terms of reference; and
  - (f) arrange for periodic review of its own performance and, at least once a year, 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 for approval.
- 4.13 To consider such other matters as may be requested by the board of directors.



**5. GENERAL MATTERS**

- 5.1 The Chairman of the Committee should make himself or herself available at each Annual General Meeting of the Company to answer questions concerning the Committee's work.
  
- 5.2 The recommendations of the Committee minutes must be approved by the board of directors before they can be implemented.