

**HARGREAVES SERVICES PLC**  
**AUDIT COMMITTEE**  
**TERMS OF REFERENCE**

**1. Membership**

- 1.1 The Committee shall be appointed by the board of Hargreaves Services plc (the “Board”).
- 1.2 The Committee shall comprise of at least two members all of whom shall be independent non-executive directors and at least one of whom shall have recent and relevant financial experience.
- 1.3 The Board shall appoint the Chairman of the Committee who shall be an independent non-executive director.
- 1.4 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive, Finance Director, other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.5 Appointments to the Committee 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.

**2. Meetings and attendance**

- 2.1 The Committee shall meet at least three times each year and at such other times as it sees fit and within the reporting and audit cycle. The external and/or internal auditors may request a meeting if they consider that one is necessary.
- 2.2 A meeting may also be requested by any member of the Committee who considers that one is necessary and by any member of the Board if approval is given by the Chairman of the Board. 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 and any other person required to attend no fewer than five working days prior to the date of the meeting.

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

2.4 The Company Secretary and a representative of the external auditors shall normally attend meetings. Other directors shall not have the right to attend meetings but may be invited to attend all or part of any meeting as and when appropriate. However, at least once a year the Committee shall meet with the external auditors without executive directors being present.

2.5 The chairman of the Committee shall not chair the Committee when it is dealing with the matter of succession to the chairmanship.

2.6 The Company Secretary shall be the secretary of the Committee but shall not attend any meeting of the Committee at which the Chairman has stipulated that no executive directors shall be present. At such meetings, the Chairman shall nominate another member of the Committee to act as secretary.

2.7 The Company Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.

2.8 The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any questions from shareholders concerning the activities of the Committee.

### **3. Authority**

3.1 The Committee is authorised by the Board to carry out any investigation within its terms of reference.

3.2 The Committee is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

3.2 The Committee is authorised by the Board to obtain expert advice from the Company's external auditors, professional advisers, outside legal or other independent professional advice or otherwise and to request the attendance of such employees or advisers as it sees fit.

#### 4. Duties

4.1 The duties of the Committee shall be but not limited to:

4.1.1 considering the appointment of the external auditor, the audit fee, the terms of engagement and any questions of resignation or dismissal and, in particular, to consider on an annual basis the auditor's independence and objectivity, their qualifications, expertise and resources, their compliance with ethical and professional guidance and the effectiveness of the audit process;

4.1.2 the regular review of the level of non audit fees paid to the external auditor as a proportion of external audit fees, having regard to latest best practice. This review will also encompass the pre approval of individual non – audit engagements in excess of £50,000 carried out by the external auditors.

4.1.3 discussing with the external auditor before the audit commences the nature and scope of the audit, and to ensure co-ordination where more than one audit firm is involved;

4.1.4 meeting 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 the auditor's remit and any issues arising from the audit;

4.1.5 reviewing the findings of the audit with the external auditor. This shall include but not be limited to, the following:

4.1.5.1 a discussion of any major issues which arose during the audit

4.1.5.2 any accounting and audit judgements

4.1.5.3 levels of errors identified during the audit

4.1.6 monitoring the integrity of financial statements of the Company including the half-year and annual financial statements, any formal announcements, summary statements, significant financial returns to regulators and any financial information contained in other documents, such as announcements of a price sensitive nature focusing particularly on:

4.1.6.1 any changes in accounting policies and practices;

4.1.6.2 major judgmental areas;

4.1.6.3 significant adjustments resulting from the audit;

4.1.6.4 the methods used to account for significant or unusual transactions;

4.1.6.5 the going concern assumption;

4.1.6.6 compliance with accounting standards;

- 4.1.6.7 compliance with stock exchange and legal requirements;
- 4.1.6.8 the clarity of disclosures;
- 4.1.6.9 all material information presented with the financial statements, including the operating and financial review and the corporate governance statement (in so far as it relates to the audit and risk management);
- 4.1.6.10 any matter which ought to be brought to the attention of the Board;
  
- 4.1.7 discussing problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
  
- 4.1.8 reviewing the external auditor's management letter and management's response;
  
- 4.1.9 reviewing the Company's requirement to implement an internal control structure and system;
  
- 4.1.10 reviewing any report by the auditors;
  
- 4.1.11 considering the major findings of internal investigations and management's response;
  
- 4.1.12 considering the draft annual business plan for the next following financial year;
  
- 4.1.13 reviewing the Company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and to ensure that any such concerns are investigated as appropriate;
  
- 4.1.14 approving, prior to endorsement by the Board, any review of the operations and finances of the Company and its subsidiary undertakings to be published in the annual report;
  
- 4.1.15 considering other topics, as defined by the Board.
  
- 4.2 With regard to compliance, whistleblowing and fraud the Committee shall:
  - 4.2.1 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;
  - 4.2.2 review the Company's procedures for detecting fraud;

4.2.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;

4.3 With regard to internal audit the Committee shall:

4.3.1 monitor and review the effectiveness of the Company's internal audit and function;

4.3.2 approve the appointment and removal of the head of the internal audit function;

4.3.3 consider and approve the remit of the internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;

4.3.4 review and assess the annual internal audit plan;

4.3.5 review reports addressed to the committee from the internal auditor;

4.3.6 review and monitor management's responsiveness to the findings and recommendations of the internal audit;

4.3.7 meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the audits carried out. In addition, the head of internal audit shall be given the right to direct access to the Chairman of the Board and to the committee.

## **5 Reporting procedures**

5.1 The Company Secretary shall circulate the minutes of meetings of the Committee to all members of the Committee and, once agreed, to all members of the Board.

5.2 The Chairman of the Committee shall report formally to the Board on its proceedings and the Committee shall make such recommendations to the Board as it deems appropriate on any matter within its remit.

5.3 The Committee shall compile a report to shareholders on its activities to be included in the Company's annual report.

5.4 The Committee shall at least once a year review its own performance, 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.