

CPPGroup Plc: Terms of Reference: Audit Committee

Membership

1. Members of the Committee shall be appointed by the Board in consultation with the Chairman of the Audit Committee. The Committee shall consist of not less than two members, all of whom shall be non-executive directors (which includes the Chairman). At least one member of the Committee should have recent and relevant financial experience.
2. Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three-year periods, provided the member remains independent.
3. The Chairman of the Committee shall be appointed by the Board. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of their number present to chair the meeting.
4. The quorum necessary for the transaction of business shall be 2 members. 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.

Attendance at Meetings

5. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board if he/she is not a member, the Executive Directors and the Head of Internal Audit may be invited to attend all or part of any meeting as and when appropriate. The external auditors will be invited to attend meetings of the Committee on a regular basis.
6. The Committee may also request the attendance of any employee whose participation will enhance the discussion of any particular agenda item. The Committee will meet with the external auditors and the Head of Internal Audit without the Executive Directors present at least quarterly.
7. The Company Secretary shall be the Secretary of the Committee.

Frequency and Notice of Meetings

8. Meetings shall be held not less than three times per year at appropriate times in the reporting and audit cycle and otherwise as required. Meetings 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.
9. 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 Committee member, any other person required to attend and all other non-executive directors, no fewer than 5 working days prior to the meeting date. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time or as soon as possible thereafter.

Authority

10. The Committee is authorised by the Board, at the Company's expense (to the agreed limit), to investigate, or arrange an investigation of, any activity within its terms of reference. In performing its duties, 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.
11. The Committee is authorised by the Board, at the Company's expense (to the agreed limit), to obtain outside legal or other independent professional advice and to secure the attendance of third parties with relevant experience and expertise if it considers this necessary.

Reporting

12. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance. The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.

Objectives

13. The Audit Committee's objectives will include: monitoring the integrity of the financial reporting systems, examining management's processes for ensuring the appropriateness and effectiveness of internal financial controls, reviewing arrangements in respect of whistleblowing and fraud, overseeing the functioning of the internal audit function and overseeing the relationship between management and the external auditors.

Duties and Responsibilities

14. The Committee shall carry out the duties and responsibilities detailed in sections 15-22 below for the parent company, the Group's non-regulated subsidiary undertakings and the group as a whole, as appropriate.

Financial Reporting

15. The Committee shall monitor the integrity of the financial statements of the Group, 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. The Committee shall also review summary financial statements, significant returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
16. The Committee shall review:
 - 16.1 The consistency of, and any changes to, accounting policies both on a year on year basis and across the Group;
 - 16.2 The methods used to account for significant or unusual transactions where different approaches are possible;
 - 16.3 Whether the Group has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
 - 16.4 The clarity of disclosure in the Group's financial reports and the context in which statements are made; and
 - 16.5 All material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the responsibilities of the Committee);

Internal Controls

17. The Committee shall:
 - 17.1 Keep under review the effectiveness of the Group's internal financial controls based on reports from management and Internal Audit.
 - 17.2 Review and approve the statements to be included in the annual report concerning internal controls and risk management.

Whistleblowing and Fraud

18. The Committee shall:

- 18.1 Review the Group's arrangements for its employees 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;
- 18.2 Review the Company's procedures for preventing and detecting fraud;
- 18.3 Review the Company's procedures for the prevention of bribery.

Internal Audit

19. The Committee shall:

- 19.1 Monitor and review the effectiveness of the company's Internal Audit function in the context of the company's overall assurance system;
- 19.2 Approve the appointment and removal of the Head of Internal Audit, who shall be accountable to the Audit Committee;
- 19.3 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;
- 19.4 Review and assess the annual Internal Audit plan, review all reports by the Head of Internal Audit and monitor management's responsiveness to the findings and recommendations of Internal Audit

External Audit

20. The Committee shall:

- 20.1 Consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Group's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues and decide whether any action is required;
- 20.2 Oversee the relationship with the external auditor including (but not limited to);
- 20.3 Approval 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;
- 20.4 Approving their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 20.5 Assess annually 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;
- 20.6 Satisfy 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);
- 20.7 Agree with the Board a policy on the employment of former employees of the company's auditor;

- 20.8 Monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Group compared to the overall fee income of the firm, office and partner and other related requirements;
- 20.9 Assess annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures;
- 20.10 Put the audit services contract out to tender at least once every ten years.
- 20.11 Meet with the external auditor at least once per year without management present to discuss their remit and any issues arising from the audit;
- 20.12 Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 20.13 Review the findings of the audit with the external auditor including but not be limited to, the following:
 - 20.13.1 A discussion of any major issues which arose during the audit
 - 20.13.2 Any accounting and audit judgements
 - 20.13.3 Levels of errors identified during the audit
- 21. The Committee shall also review the effectiveness of the audit and in particular:
 - 21.1 Review any representation letter(s) requested by the external auditor before they are signed by management;
 - 21.2 Review the management letter and management's response to the auditor's findings and recommendations;
 - 21.3 Develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

Reporting Responsibilities

- 22. The Committee Chairman, or in his absence another Committee member, shall report formally to the Board on its proceedings after each meeting on all significant matters within its duties and responsibilities.
- 23. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 24. The Committee shall compile a report to shareholders on its activities to be included in the Group's annual report.
- 25. The Committee Chairman shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

Other Matters

- 26 The Committee shall:
 - 26.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
 - 26.2 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;

- 26.3 Give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other rules as appropriate;
- 26.4 Be responsible for co-ordination of the internal and external auditors;
- 26.5 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.

Approved by the CPPGroup PLC Board on 19 July 2016

POLICY FOR THE ENGAGEMENT OF THE EXTERNAL AUDITORS TO SUPPLY NON-AUDIT SERVICES

1. SCOPE AND PURPOSE

This policy covers the engagement of external auditors to perform non-audit services. The objectives of the policy are to:

- Ensure that neither the nature of the services nor the level of reliance placed on them by the Group could, or could be seen to, impair the objectivity of the external auditors' opinion on the Financial Statements.
- Establish a straightforward and transparent process and reporting to enable the Audit Committee to monitor compliance.
- Avoid unnecessary restrictions on the purchase of services from the external auditors where they are able to demonstrate provision of a higher quality and more cost effective service than other providers.

2. PRINCIPLES

In all services purchased, the Group aims to select the provider who is best placed to deliver the service in terms of quality and cost. It is recognised that the knowledge of key areas of the Group gained by the external auditors through the performance of their statutory audit work may enable them to be well placed to provide valuable services to the Group in respect of these areas.

In order to retain the option of utilising the external auditors to provide non-audit services where it is in the Group's best interests to do so, a number of criteria have to be met. These are that the external auditors do not:

- Audit their own work
- Make management decisions for the Group
- Create a conflict of interest
- Find themselves in the role of advocate for the Company. This is defined by the institute of Chartered Accountants (ICAEW) guidance as "promoting or being perceived to promote an audit client's position or opinion to the point where objectivity may be compromised".

Before appointing the external auditors to undertake a non-audit service, consideration should be given to whether this would create a threat to independence.

No partner from the external auditors will be employed within 2 years of the conclusion of the last audit of the Group in which they were involved.

3. TYPES OF SERVICE

Restricted services from our external auditors will be divided into three categories:

1. Those services which the external auditors are not allowed to undertake.
2. Those services which the external auditors would normally be permitted to provide, but where prior authorisation of the Audit Committee or the Chairman of the Audit Committee is required, and where additional safeguards may need to be put in place.
3. Services which may be supplied by external audit, which require approval by the Group Chief Financial Officer to confirm necessary safeguards are in place.

Services outside of these three categories are also subject to the Group's usual tendering and approval procedures.

Restricted services are as follows:

1. Services which the external auditors are not allowed to provide

Any service where there is involvement in management functions or management decision making; and/or any service that Management may place primary reliance on in determining the adequacy of internal controls, financial systems, or financial reporting. These specifically include but are not limited to the following:

- Preparing accounting records.
- Secondment of staff to prepare accounting records or financial statements.
- Valuation services material to the financial statements and/or where there is a high degree of subjectivity.
- Management or provision of Internal Audit services.
- Material accounting IT system design and implementation.
- Management of material projects other than in support of a Group Project Manager.
- Recruitment of senior management.
- Corporate finance, transaction related and similar activities where:
 - I. there is a significant advocacy role;
 - II. the audit firm would take responsibility for dealing in, underwriting or promoting shares; or
 - III. the services are provided on a contingent fee basis and relate to amounts which are material in the financial statements of the entity involved.
- Restructuring services where a management role or advocacy role is involved. Restructuring service which might give rise to a self-review threat in the course of a current or future audit.
- Any additional services prohibited by legislation or regulation.

2. Services which the external auditors can provide with prior authorisation of the Audit Committee or Chairman of the Audit Committee, and where additional safeguards may need to be put in place.

Service	Guidance from the ICAEW
Taxation services, wholly or partly on a contingent basis, where advice given or position taken is material to the financial statements or where there is a high degree of uncertainty	Such assignments are generally not seen to create threats or potential threats. Safeguards may include the following: <ul style="list-style-type: none"> ● Ensure Management has sufficient knowledge to take responsibility for the outcome of the service. ● Obtain an additional independent third party opinion.
Corporate finance, transaction related and similar activities, not restricted by the above, but where advice given or position taken is material to the financial statements.	Corporate finance services may create advocacy or self-review threats, however safeguards may be available to reduce these threats to an acceptable level for example by: <ul style="list-style-type: none"> ● Ensuring Management has sufficient knowledge to take responsibility for the outcome of the service.

For all non-audit services, fees may not be charged where the fee is material to the firm (or the part of the firm) by which the audit partner's profit share is calculated, or the outcome of the service (and therefore the fee) is dependent on a future or contemporary audit judgement relating to a material matter in the financial statements of the audited entity or on a new or uncertain tax law interpretation.

3. Services which may be supplied by the external auditors, which require approval by the Group Chief Financial Officer to confirm necessary safeguards in place.

Service
<ul style="list-style-type: none">● Valuation services not material to the financial statements and where there is not a high degree of subjectivity.● Provision of non-material systems or project services under the control of a Group project manager.● Secondment of staff other than to prepare accounting records or financial statements.● Tax service, wholly or partly on a contingent basis, where the outcome of tax planning resulting from those services is uncertain, but could not have a material impact on the financial statements of the entity involved.

Safeguards that may be considered:

- Ensure Management has sufficient knowledge to take responsibility for all management decisions and for the outcome of reviews.
- Service performed by personnel not involved in the audit.

Any other services may be provided without restriction subject to the Group's usual tendering and approval processes.

Fee levels – Projects with external auditors

All non-audit services provided by the external auditor require the explicit approval of the Group Chief Financial Officer, who will refer to the Audit Committee Chairman:

- any expenditure over **£50,000** or above **50%** of the annual Group audit fee
- Any project once the aggregate expenditure on non-audit services reaches **75%** of the annual Group audit fee.

Reporting

A report will be provided by the external auditor to the Audit Committee, at least annually but as appropriate, outlining:

- Proposals considered since the previous report and the decisions taken.
- Any category 2 proposals which the Audit Committee is required to approve.
- Current Level of expenditure (actual and committed) for non-audit fees. This will include a description of the nature of the service provided and a comparison with the external audit fee and with the total fees earned by the external auditors. This would include any approvals required due to fee level benchmarks being exceeded.

Where Category 2 proposals have been approved by Audit Committee subject to safeguards, confirmation of compliance with these safeguards will be provided by the Manager who requested the Audit Committee's approval of the proposal.

Written confirmation from the external auditors outlining their independence policy and their compliance therewith will also be required annually and at other times as the Audit Committee may request. This should include reassurance that external audit staff have no family or financial employment with the Company other than in the normal course of business.

Approved by the Group Audit Committee on 22 April 2014.