

**URBAN&CIVIC PLC**  
(the "Company")

**TERMS OF REFERENCE OF THE AUDIT COMMITTEE**

Approved by the Board of Directors of the Company on 23 May 2017

## TERMS OF REFERENCE OF THE AUDIT COMMITTEE

### 1 MEMBERSHIP

- (a) The board of directors of the company (the "**Board**") has resolved to establish a committee of the Board to be known as the Audit Committee.
- (b) Membership of the Audit Committee shall consist of at least two independent non-executive directors. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chairman of the Audit Committee.
- (c) All 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 accountancy bodies. C.3.1 of the UK Corporate Governance Code (the "**Code**") provides that in smaller companies the company chairman may be a member of, but not chair, the committee provided (s)he was independent on appointment as chairman. The Board has agreed that the Chairman of the Board shall not be a member of the committee.
- (d) Only members of the Audit Committee have the right to attend committee meetings. However, the external auditor and finance director will be invited to attend meetings of the committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- (e) Appointments to the committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.
- (f) The Board shall appoint the committee chairman. In the absence of the committee chairman and/or an appointed deputy, the remaining members shall elect one of themselves to chair the meeting.

### 2 SECRETARY

The company secretary, or his or 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.

### 3 QUORUM

The quorum necessary for the transaction of business shall be at least two members. Meetings may be held by telephone conference.

### 4 FREQUENCY OF MEETINGS

- (a) The committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- (b) Outside of the formal meeting programme, the committee chairman will maintain a dialogue with key individuals involved in the company's governance, including the Board chairman, the chief executive or managing director, the finance director and the external audit lead partner.

### 5 NOTICE OF MEETINGS

- (a) Meetings of the committee shall be convened by the secretary of the committee at the request of any of its members or at the request of the external audit lead partner if they consider it necessary.
- (b) 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 (although such notice period may be waived or shortened with the consent of all the members of the committee for the time being). Supporting

papers shall be sent to committee members and to other attendees as appropriate, at the same time.

## 6 **MINUTES OF MEETINGS**

- (a) The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance.
- (b) 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 it would be inappropriate to do so in the opinion of the committee chairman.

## 7 **ANNUAL GENERAL MEETING**

The committee chairman should attend the annual general meeting to answer shareholder questions on the committee's activities.

## 8 **DUTIES**

The committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

### (a) **Financial reporting**

- (i) The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgments which they contain having regard to matters communicated to it by the auditor. The committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- (ii) In particular, the committee shall review and challenge where necessary:
  - (1) the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the company/group;
  - (2) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (3) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgments, taking into account the views of the external auditor;
  - (4) the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made; and
  - (5) all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management.
- (iii) The committee shall review and, where necessary, challenge the Company's financial statements (before submission to the Board) taking into account: decisions requiring a major element of judgement;
  - (1) the extent to which the financial statements are affected by any unusual transactions;
  - (2) the clarity of disclosures;
  - (3) the going concern assumption;

- (4) compliance with accounting standards;
- (5) compliance with stock exchange and other legal requirements; and
- (6) reviewing the Company's statement on internal control systems prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks by the Company. Primary responsibility will, however, remain with the full Board.

(iv) Where the committee is not satisfied with an aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

**(b) Narrative reporting**

The committee shall 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 and whether it supports the board's statement in the annual report on these matters, as required under the Code.

**(c) Internal controls and risk management systems**

The committee shall:

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

**(d) Compliance whistleblowing and fraud**

The committee shall:

- (i) 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;
- (ii) review the Company's procedures for detecting fraud; and
- (iii) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

**(e) Internal audit**

The committee shall

- i) consider annually the requirements for an internal audit function and shall recommend to the Board accordingly. The committee shall take into account the size of the Company's operations and the views of the external auditor on this issue. The internal audit function shall be carried out by external resources as appropriate;
- ii) review and approve the role and mandate of the internal audit function, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- iii) ensure the internal audit function has unrestricted scope within parameters agreed by the Committee, the necessary resources and access to information to enable it to fulfil its mandate and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;

- iv) ensure the internal auditor has direct access to the board chairman and to the committee chairman, providing independence from the executive and accountability to the committee;
- v) carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment:
  - a) meet with the internal auditor without the presence of management to discuss the effectiveness of the function;
  - b) review and assess the annual internal audit work plan;
  - c) receive a report on the results of the internal auditor's work;
  - d) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - e) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- vi) monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system and the work of compliance, finance and the external auditor.

At the date these terms of reference were agreed it was noted that the committee had appointed an outsourced internal audit service.

(f) **External Audit**

The committee shall:

- (i) consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting of the Company, in relation to the appointment, re-appointment and removal of the Company's external auditor and monitor the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner;
- (ii) 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 external 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;
- (iii) The committee shall oversee the selection process for a new auditor if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (iv) oversee the relationship with the external auditor including (but not limited to):
  - (1) recommendations on their remuneration, including fees for both audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - (2) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - (3) review and assess 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;
  - (4) 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;

- (5) agreeing with the Board a policy on the employment of former employees/partners of the Company's external auditor, then monitoring the implementation of this policy;
  - (6) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (7) 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;
  - (8) seeking to ensure co-ordination with the activities of the internal audit function; and
  - (9) 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 in that evaluation;
- (v) 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;
  - (vi) 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
  - (vii) review the findings of the audit with the external auditor. This shall include but not be limited, to the following:
    - (1) a discussion of any major issues which arose during the audit;
    - (2) key accounting and audit judgements;
    - (3) the external auditor's view of their interactions with management;
    - (4) levels of errors identified during the audit; and
    - (5) the effectiveness of the audit process.

(g) The committee shall also:

- (i) review any representation letter(s) requested by the external auditor before they are signed by management;
- (ii) review the management letter and management's response to the auditor's findings and recommendations;
- (iii) develop and recommend to the board the company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.

The policy should include consideration of the following matters:

- a) threats to the independence and objectivity of the external auditor and any safeguards in place;
- b) the nature of the non-audit services;
- c) whether the external audit firm is the most suitable supplier of the non-audit service; and
- d) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee.

## 9 REPORTING RESPONSIBILITIES

- (a) The committee chairman 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. This report shall include:
  - (i) the significant issues that it considered in relation to the financial statements (required under paragraph 8(a)(i)) and how these were addressed;
  - (ii) its assessment of the effectiveness of the external audit process (required under paragraph 8(f)(iv)(7)) and its recommendation on the appointment or reappointment of the external auditor;
  - (iii) its assessment of the effectiveness of the internal audit process (required under paragraph 8(f)(iv)(7)) and its recommendation on the appointment or reappointment of the internal auditor; and
  - (iv) any other issues on which the Board has requested the committee's opinion.
- (b) The committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvements is needed.
- (c) The committee shall compile a report on its activities to be included in the company's annual report. The report should include 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 external auditor; and all other information requirements set out in the Code.
- (d) In compiling the reports referred to in paragraph 9(a) and paragraph 9(c), the committee should exercise judgment in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the Board's assessment of whether the company is a going concern and the input to the Board's viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## 10 OTHER MATTERS

The committee shall:

- (i) have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
- (ii) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- (iii) give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- (iv) be responsible for co-ordination of the internal and external auditors;

- (v) oversee any investigation of activities which are within its terms of reference;
- (vi) work and liaise as necessary with all other Board committees; and
- (vii) 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.

## 11 **AUTHORITY**

The committee is authorised to:

- (i) investigate any activity within its terms of reference and seek directly any information it requires from any employee or contractor of the Company in order to perform its duties (all such persons being directed to co-operate with any such requests by the committee);
- (ii) obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- (iii) call any employee to be questioned at a meeting of the committee as and when required; and
- (iv) have the right to publish in the company's annual report, details of any issues that cannot be resolved between the committee and the Board.