

Audit committee – terms of reference

1. Constitution
 - 1.1 At a meeting held on 5th February 2004, the board of directors of Carclo plc resolved to establish a standing committee of the board without executive responsibilities, to be known as the audit committee, in accordance with these terms of reference which were adopted.
2. Membership
 - 2.1 The membership of the committee shall be appointed by the board from amongst the non-executive directors of the company and shall consist of a minimum of [three] members and majority of whom should be independent of the company. A quorum shall be [three] members.
 - 2.2 The duties and responsibilities of a member of the audit committee are in addition to those set out for a member of the board of directors.
 - 2.3 The chairman of the committee, who shall not be the chairman of the company, shall be appointed by the board by formal board resolution.
3. Attendance at meetings
 - 3.1 The group finance director, internal auditor and a representative of the external auditors shall normally attend meetings. All other board members and the chief executive shall also normally have the right to attend.
 - 3.2 The committee may instruct any officer or employee of the company to attend any meeting and provide pertinent information as necessary.
 - 3.3 At least once a year, the committee shall meet with the internal auditor and the external auditors respectively without the presence of executive management to discuss any matters that either the committee or these two believe should be discussed privately. The company secretary shall be the secretary of the committee.
4. Frequency of meetings
 - 4.1 Meetings shall be held at least [three] times yearly or more frequently as circumstances require.
 - 4.2 The committee chairman shall convene a meeting upon request of any committee member who considers it necessary.
 - 4.3 Whenever possible committee meetings shall be scheduled to allow for adequate time for committee business, and so that they can be reported promptly and effectively to the board.
5. Authority
 - 5.1 The committee is authorised by the board to investigate any activity it deems appropriate. It is authorised to seek any information from any officer or employee of the company all of whom are directed to co-operate with any request made by the committee.
 - 5.2 The committee is authorised to engage any firm of accountants, lawyers or other professionals as the committee sees fit to provide independent council and advice and to assist in any review or investigation on such matters as the committee deems appropriate.
 - 5.3 The internal auditor reports functionally to the chairman of the audit committee (and administratively to the group finance director).
6. Duties

The duties of the committee shall be as follows:

General

 - 6.1 To ensure that there is an open avenue of communication between the internal auditor, the external auditors and the board of directors.
 - 6.2 Review annually and, if necessary propose for formal board adoption, amendments to the committee's terms of reference.
 - 6.3 Consider, in consultation with the external auditors and the internal auditor, the audit plans and scope of the external auditors and internal auditor, ensuring that co-ordination of audit effort is maximised.

Financial statements

 - 6.4 Review with management and the external auditors at the completion of the annual examination:
 - a) the company's annual financial statements and related footnotes;
 - b) the external auditors' audit of the financial statements and report thereon;
 - c) any significant changes which have been required in the external auditors' audit plan;
 - d) any significant difficulties or disputes with management encountered during the course of the audit; and
 - e) other matters related to the conduct of the audit which are to be communicated to the committee under generally accepted auditing standards.

Internal control

- 6.5 Enquire of management, the internal auditor, and the external auditors about significant risks or exposures and evaluate the steps taken to minimise such risk to the company.
- 6.6 Consider and review with management and the internal auditor significant findings during the year and management's responses thereto.
- 6.7 Consider and review with the external auditors and the internal auditor.
 - a) The adequacy of the company's systems of internal control including computerised information systems controls and security.
 - b) Any related significant findings and recommendations of the external auditors and of the internal auditor, together with management's responses thereto; and
 - c) The contents of the external auditors' Management Letter, together with management's responses thereto.

External audit

- 6.8 Recommend to the board of directors the external auditors to be appointed and their compensation; review and approve the scope and quality of their work, and their discharge or resignation.
- 6.9 Consider with management and the external auditors the rationale for employing audit firms other than the principal external auditors.

Internal audit

- 6.10 Review and approve, where possible in advance in the event, the appointment, replacement, reassignment or dismissal of the internal auditor.
Consider and review with management and the internal auditor;
 - a) any difficulties encountered in the course of internal audits, and any restrictions placed on internal audit scope of work or access to required information or personnel;
 - b) the audit plan of future audits to be conducted;
 - c) the internal auditing department's budget and staffing; and
 - d) any changes which have been required in the previously approved audit plan.

7. Reporting

- 7.1 The chairman of the committee shall report on committee business to the board of directors with such recommendations as the committee may deem appropriate.
- 7.2 The committee shall recommend approval of the annual report and accounts to the board of directors.
- 7.3 The secretary shall distribute copies of the minutes of the meetings of the committee to all members of the board of directors, and the minutes shall be an agenda paper for the next following board meeting.