

**Lighthouse Group plc**  
**Terms of reference for the Audit Committee**  
**August 2018**

1 Membership

- 1.1 The Committee shall comprise at least two members. Membership shall include at least one member of the Risk & Regulatory Committee. Members of the Committee shall be appointed by the Board in consultation with the Chair of the Audit Committee.
- 1.2 All members of the Committee shall be independent Non-Executive Directors at least one of whom shall have recent and relevant financial experience. The Chairperson of the Board shall not be a member of the Committee.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairperson 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.
- 1.4 The external auditor will be invited to attend meetings of the Committee on a regular basis.
- 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.
- 1.6 The Board shall appoint the Committee Chair who shall be an independent Non-Executive Director. In the absence of the Committee Chair and/or an appointed deputy, the remaining members present 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.

3 Quorum

- 3.1 The quorum necessary for the transaction of business shall be two 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.
- 3.2 Decisions of the Committee will be made by majority vote. In the event that there is an equality of votes the Chair of the Committee will have a second or casting vote.

4 Frequency of meetings

The Committee shall meet at appropriate times in the reporting and audit cycle and otherwise as required.

5 Notice of meetings

- 5.1 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 external or internal auditor if they consider it necessary.

- 5.2 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. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.
  
- 6 Minutes of meetings
  - 6.1 The Secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
  
  - 6.2 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.

7 Annual General Meeting

The Committee Chair 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.

8.1 Financial reporting

8.1.1 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 significant financial reporting issues and judgements which they contain.

8.1.2 In particular, the Committee shall review and challenge where necessary -

8.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group

8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible

8.1.2.3 whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor

8.1.2.4 the clarity of disclosure in the Company's financial reports and the context in which statements are made; and

8.1.2.5 all material information presented with the financial statements, such as the business review/operating and financial review and the Corporate Governance statement (insofar as it relates to the audit and risk management).

## 8.2 Internal controls and risk management systems

The Committee shall

- 8.2.1 keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems; and
- 8.2.2 review and approve the statements to be included in the Annual Report concerning internal controls and risk management.

## 8.3 Compliance, whistleblowing and fraud

The Committee shall

- 8.3.1 have regard to the work of the Regulatory & Risk Committee when discharging its obligations.
- 8.3.2 review the Company's procedures for detecting fraud in the context of the Committee's overarching obligations and having regard to the role of the Regulatory & Risk Committee in this area.
- 8.3.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance in the context of the Committee's overarching obligations and having regard to the role of the Regulatory & Risk Committee in this area.

8.3.4 Not used.

8.3.5 Not used.

## 8.4 Internal audit

The Committee shall

- 8.4.1 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system
- 8.4.2 approve the appointment and removal of the head of the internal audit function
- 8.4.3 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
- 8.4.4 review and assess the annual internal audit plan in conjunction with the Audit Committee
- 8.4.5 review reports addressed to the Committee from the internal auditor
- 8.4.6 review and monitor management's responsiveness to the findings and recommendations of the internal auditor
- 8.4.7 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 internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the chairman of the board and to the Committee

## 8.5 External Audit

The Committee shall

- 8.5.1 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 a new auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required
  
- 8.5.2 oversee the relationship with the external auditor including (but not limited to)
  - 8.5.2.1 recommendations on 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
  - 8.5.2.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
  - 8.5.2.3 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
  - 8.5.2.4 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)
  - 8.5.2.5 agreeing with the board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy
  - 8.5.2.6 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner/director, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements
  - 8.5.2.7 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
  - 8.5.2.8 seeking to ensure co-ordination with the activities of the internal audit function
  
- 8.5.3 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 the auditor's remit and any issues arising from the audit
  
- 8.5.4 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement
  
- 8.5.5 review the findings of the audit with the external auditor. This shall include but not be limited to, the following
  - 8.5.5.1 a discussion of any major issues which arose during the audit
  - 8.5.5.2 any accounting and audit judgements
  - 8.5.5.3 levels of errors identified during the audit
  - 8.5.5.4 the effectiveness of the audit
  
- The Committee shall also
  
- 8.5.6 review any representation letter(s) requested by the external auditor before they are signed by management

- 8.5.7 review the management letter and management's response to the auditor's findings and recommendations
- 8.5.8 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.
- 9 Reporting responsibilities
- 9.1 The Committee Chair shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The Committee shall produce a report on its activities to be included in the Company's Annual Report.
- 10 Other matters
- The Committee shall
- 10.1 have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required
- 10.2 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
- 10.3 give due consideration to laws and regulations, the provisions of the QCA Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules e.g. AIM Rules, as
- 10.4 be responsible for co-ordination of the internal and external auditors
- 10.5 oversee any investigation of activities which are within its terms of reference
- 10.6 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 for approval.
- 11 Authority
- The Committee is authorised
- 11.1 to seek any information it requires from any employee of the Company/Group in order to perform its duties
- 11.2 to obtain, at the Company's expense and as appropriate, outside legal or other professional advice on any matter within its terms of reference
- 11.3 to call any employee to be questioned at a meeting of the Committee as and when required
- 11.4 to 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.