

## **Kellan Group PLC**

### **Audit Committee – Terms of Reference**

Reference to “the Committee” shall mean the Audit Committee. Reference to “the Board” shall mean the main Board of Directors of Kellan Group Plc.

#### **1. Membership and attendance**

- 1.1 The Committee shall be appointed by The Board, and shall comprise of a Chairman and at least 2 other members unless the number of non-executive directors (including the Chairman) is less than 3, in which case it shall comprise of the Chairman and the other non executive director.
- 1.2 Where possible, a majority of members of The Committee shall be independent non-executive directors. At least one member of The Committee should have recent relevant financial knowledge.
- 1.3 Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence. (It is recommended that, where possible, the Chairman and members of The Committee should be rotated on a regular basis).
- 1.4 The Board shall appoint the Committee Chairman. 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.
- 1.5 The Committee may ask the Chairman, Chief Executive Officer, Chief Financial Officer and any relevant senior management to attend meetings either regularly or by invitation, but the invitees have no right of attendance.
- 1.6 The Committee shall ask a representative of the external auditors to attend such meetings as they deem appropriate. The Committee should have at least one meeting, or part thereof, with the external auditor without management being present.

#### **2. Secretary**

- 2.1 The Chief Financial Officer or his nominee shall act as the Secretary of the Committee.

#### **3. Quorum**

- 3.1 The quorum necessary for the transaction of business shall be 2. 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.

#### **4. Frequency of Meetings**

- 4.1 The Committee shall meet not less than three times a year and at such other times as the Chairman of the Committee shall require.
- 4.2 meetings will be arranged to tie in with the publication of the company’s financial statements, allowing wherever possible at least 5 working days prior to a Board Meeting where accounts or financial statements are to be approved.
- 4.3 Meetings can be requested by the external or internal audit (Note 1) functions if they consider one is necessary.

#### **5. Notice of Meetings**

- 5.1 Meetings of the Committee shall be summoned by the Chairman or Secretary of the Committee at the request of any member thereof.
- 5.2 Unless otherwise agreed or in the case of urgent need, 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 wherever possible, no fewer than 5 working days prior to the date of the meeting.

## **6. Minutes of Meetings**

- 6.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The Secretary should ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and a written report provided to all members of the Board at the next scheduled Board Meeting.

## **7. Annual General Meeting**

- 7.1 The Chairman of The Committee should be prepared to attend the Annual General Meeting and if asked, respond to any 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 interim reports, preliminary results' announcements, current trading statements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgments that they contain. 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.
- 8.1.2 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 judgments, 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 operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management);
- 8.1.3 The Committee shall review the annual financial statements of any pension funds that may be maintained by the Group where not reviewed by the Board as a whole.

### **8.2 Internal Controls and Risk Management Systems**

The Committee shall:

- 8.2.1 keep under review the effectiveness of the company's internal controls 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. Whistleblowing**

The Committee shall review the company'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.

#### **8.4. Internal Audit (Note 1)**

To the extent applicable to the Company, 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;
- 8.4.5 review promptly all reports on the company from the internal auditors;
- 8.4.6 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 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 AGM, in relation to the appointment, re-appointment and removal of the company's external auditor. The Committee shall oversee the selection process for new auditors 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 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;
  - 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 partners, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements; and
  - 8.5.2.7 assessing 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;
- 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 ideally meet the external auditor at least once a year, without management being present, to discuss their 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 taking into account its and the Auditor's risk assessments;

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 judgments, and

8.5.5.3 levels of errors identified during the audit.

**The Committee shall also review the effectiveness of the audit.**

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; and

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.

**8.6. Reporting Responsibilities**

8.6.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

8.6.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

**8.7. Other Matters**

The Committee shall:

8.7.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

8.7.2 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;

8.7.3 give due consideration to laws and regulations, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules as appropriate;

8.7.4 give due consideration to International Accounting Standards, as appropriate and to the extent relevant to the Company;

8.7.5 be responsible for co-ordination of the internal and external auditors;

8.7.6 oversee any investigation of activities which are within its terms of reference and act as a court of the last resort; and

8.7.7 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.

**9. Authority**

The Committee is authorised:

9.1 to seek any information it requires from any employee of the company in order to perform its duties;

9.2 to obtain, at the company's expense, outside legal or other professional advice (including its NOMAD whilst its securities remain listed on the AIM market) on any matter within its terms of reference; and

9.3 to call any employee to be questioned at a meeting of the Committee as and when required.

**NOTES**

(1) Inapplicable if the committee believe the size and complexity of the Group does not warrant a dedicated Internal Audit Function.