

## **Terms of reference of the Audit Committee of PCI-PAL PLC**

1. Duties and terms of reference
  - 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, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.
  - 1.2. The Committee shall also review summary financial statements, any significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
2. The Committee shall review and challenge where necessary:
  - 2.1. the consistency of, and any changes to, accounting policies both on a year on year basis and across the company and its group;
  - 2.2. the methods used to account for significant or unusual transactions where different approaches are possible;
  - 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;
  - 2.4. the clarity of disclosure in the company's financial reports and the context in which statements are made; and
  - 2.5. all material information presented with the financial statements, such as the business review and any corporate governance statement (insofar as it relates to the audit and risk management).
3. The Committee shall:
  - 3.1. keep under review the adequacy, effectiveness and independence of the Company's internal financial controls, internal risk assessment processes and internal control and risk management systems; and
  - 3.2. review and approve the statements to be included in the annual report concerning internal controls and risk management.
4. The Committee shall:
  - 4.1. 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 following up action;
  - 4.2. review the Company's procedures for detecting fraud;
  - 4.3. review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance; and
  - 4.4. review the adequacy and effectiveness of the Company's policies and controls relating to money-laundering, corporate criminal offence and data protection.

5. The Committee shall:
  - 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.
  - 5.2. 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;
  - 5.3. oversee the relationship with the external auditor including (but not limited to):
    - 5.3.1. 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;
    - 5.3.2. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
    - 5.3.3. 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;
    - 5.3.4. 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);
    - 5.3.5. agreeing with the board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy;
    - 5.3.6. 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;
    - 5.3.7. 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;
  - 5.4. Have a regular dialogue with the external auditor, including once at the planning stage before the audit and once face to face 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 their remit and any issues arising from the audit.
  - 5.5. Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
  - 5.6. Review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
    - 5.6.1. a discussion of any major issues which arose during the audit,
    - 5.6.2. any accounting and audit judgements, and
    - 5.6.3. levels of errors identified during the audit.
  - 5.7. Review any representation letter(s) requested by the external auditor before they are signed by management.

- 5.8. Review the management letter and management's response to the auditor's findings and recommendations, if any.
  - 5.9. Review the policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.
  - 5.10. The Committee Chairman shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
  - 5.11. The Committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
  - 5.12. The Committee shall compile a report to shareholders on its activities to be included in the company's annual report.
  - 5.13. The Committee shall:
    - 5.13.1. have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
    - 5.13.2. 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;
    - 5.13.3. give due consideration to applicable laws and regulations, the provisions of the Corporate Code, the QCA Corporate Governance Guidelines for Smaller Quoted Companies, and the requirements of AIM Rules for Issuers as appropriate;
    - 5.13.4. be responsible for co-ordination of the external auditors;
    - 5.13.5. oversee any investigation of activities which are within its terms of reference and act as a court of the last resort.
  - 5.14. To consider such other matters as may be requested by the board of directors.
6. Membership
    - 6.1. The members of the Committee shall be appointed by the board of directors. All of the members of the Committee should be independent non-executive directors.
    - 6.2. The Committee shall have at least two members and at least one member should have recent and relevant financial experience.
    - 6.3. A quorum shall be any two members of the Committee.
  7. Voting arrangements
    - 7.1. Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Committee.
    - 7.2. If a matter that is considered by the Committee is one where a member of the Committee, either directly or indirectly has a personal interest, that member shall not be permitted to vote at the meeting.
    - 7.3. Save where he has a personal interest, the Chairman will have a casting vote.

## 8. Attendance at meetings

- 8.1. The Committee will meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required. Meetings may be held by video conference, telephone or by any other manner permitted by the Company's constitution.
- 8.2. The Committee may meet at other times during the year as agreed between the members of the Committee.
- 8.3. Other directors may be invited to attend all or part of any meeting as and when appropriate.
- 8.4. The company's external auditors may be required to attend Committee meetings, but not in the presence of any of the executive directors of the company, with a view to consulting with the Committee.

## 9. Notice of meetings

- 9.1. Meetings of the Committee shall be called by the Chairman.
- 9.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of the matters to be discussed at the meeting shall be forwarded to each member and any other person required to attend by no later than 7 days before the date of the meeting. Any supporting papers shall be sent to each member of the Committee (as appropriate) at the same time.

## 10. Authority

- 10.1. The Committee is authorised by the board of directors to examine any activity within its terms of reference and is authorised to have unrestricted access to the company's external auditors and to obtain, at the company's expense, professional advice on any matter within its terms of reference.
- 10.2. The Committee is authorised to seek any information it requires from any employee or director, and all such employees or directors will be directed to co-operate with any request made by the Committee.

## 11. Reporting

- 11.1. Minutes of each meeting will be circulated to all members of the Committee. On finalisation and signature by the chairman, the minutes of each meeting will be submitted to the board of directors as a formal record of the decisions of the Committee on behalf of the board of directors unless a conflict of interest exists.

## 12. General matters

- 12.1. Finalised minutes of the meetings of the Committee will be circulated to the members of the board of directors as part of the board papers for each full meeting of the board of directors.
- 12.2. The Chairman of the company should make himself available at each Annual General Meeting of the company to answer questions concerning the Committee's work during the preceding year.
- 12.3. The recommendations of the Committee minutes must be approved by the board of directors before they can be implemented.