

## Constitution

The Board of Hill & Smith PLC ('the Company') has established, in line with Corporate Governance best practice, a committee of the Board, henceforth known as the Audit Committee ('the Committee').

### 1. Membership

- 1.1 The Committee shall comprise at least three members. All members of the Committee shall be independent Non-executive Directors; at least one of whom shall have recent and relevant financial experience, and the Committee as a whole should have competent experience relevant to the sector in which the Company operates. The Chair of the Board shall not be a member of the Committee.
- 1.2 Only members of the Committee have the right to attend Committee meetings. However, the Group Financial Officer, External Auditor, and Head of Internal Audit will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or any part of any meeting as and when appropriate and necessary.
- 1.3 The Board shall appoint the Committee Chair, who shall have recent and relevant financial experience. 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 who would qualify under these terms of reference to be appointed to that position by the Board.

### 2. Secretary

- 2.1 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

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

### 4. Frequency of meetings

- 4.1 The Committee shall meet at least three times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chair, the Group Chief Executive, the Group Finance Officer, the external audit lead partner and the Head of Internal Audit or person responsible for internal audit.

### 5. Notice of meetings

- 5.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Chair of the Committee or any of its members or at the request of the external audit lead partner or head of internal audit 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 three 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 resolutions 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 approved by Committee Chair.

## 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.

The Committee shall:

### Financial reporting

- 8.1 **monitor** the integrity of the financial statements of the Company, including its annual and half-yearly reports, trading statements, preliminary announcements and any other formal announcement relating to its financial performance, reviewing, and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.
- 8.2 **review** and **challenge** where necessary:
  - the application of significant accounting policies and any changes to them;
  - the methods used to account for significant or unusual transactions where different approaches are possible;
  - whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor; and
  - all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and risk management.
- 8.3 **report** its views to the Board where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company.

### Narrative reporting

- 8.4 **review** where requested by the Board, 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 position, performance, business model and strategy; and
- 8.5 **approve** the statements to be included in the Annual Report concerning internal control, risk management and viability.
- 8.6 **ensure** Task Force on Climate-related Financial Disclosures (TCFD) reporting and risk assessments are effective, both in terms of content and governance.

## Internal controls and risk management systems

- 8.7 **ensure** that systems of risk management and internal control are embedded in the operation and business processes of all subsidiary companies and that an appropriate culture has been instilled throughout the Group;
- 8.8 **review** on an ongoing basis the adequacy and effectiveness of the Company's internal financial control and other internal control (including the Group Financial Controls Manual Group IT Control Manual, operational, fraud, bribery and other compliance policies) and risk management systems;
- 8.9 **receive** reports on significant instances of non-compliance with internal control systems;
- 8.10 **oversee** and **advise** on the framework for the operation of risk management within the business;
- 8.11 **review** the Group's principal risks and uncertainties, agreeing how these risks are managed, mitigated, and monitored on an ongoing basis;
- 8.12 **oversee** the current risk exposures of the company and future risk strategy and keep under review the Company's overall risk assessment processes that inform the Board's decision making; and
- 8.13 **advise** the Board on the Company's overall risk appetite, tolerance, and strategy.

## Internal audit

- 8.14 **approve** the appointment or termination of appointment of the head of internal audit or the allocation of resources to effectively discharge the internal audit function;
- 8.15 **approve** the remit of the internal audit function and annual approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- 8.16 **approve** the annual internal audit plan to ensure it is aligned to the key risks of the business;
- 8.17 **review** regular reports from the head of internal audit of progress against the plan, the results of work carried out, management responses and progress of actions taken to implement recommendations;
- 8.18 **review** the effectiveness of the Company's internal audit arrangements at least annually and **ensure**:
  - the internal audit function is appropriate in the context of the Company's overall risk management system and of the quality expected;
  - the internal auditor has the appropriate expertise and experience;
  - the function has enough resources, standing and right of access to perform in accordance with appropriate professional standards for internal auditors;
  - the internal auditor has direct access to the Chair of the Board and to the Committee Chair;
  - an annual report is received from the internal auditor on the results of the audit work for the period and the management's responsiveness to the findings and recommendations of the internal audit arrangements;
  - the Committee has met with the head of internal audit at least once during the year, without management being present, to discuss their remit and any issues arising from the compliance programme or internal audit work carried out; and
  - the Committee has considered whether an independent, third-party review of processes is appropriate.

## External Audit

- 8.19 **maintain** a watching brief over the external professional firms used by the Company, to ensure there are sufficient, capable, unconflicted and independent firms available to tender;
- 8.20 **develop** and **lead** the selection procedure for the appointment of the audit firm, including ensuring that:
1. at least three firms be invited to tender, including consideration of including 'challenger' firms in the process;
  2. the selection criteria is transparent and non-discriminatory;
  3. all tendering firms have access to all necessary information and individuals during the tendering process;
  4. Committee members are involved throughout the process;
  5. the selection should be made based on quality, including independence, challenge and technical competence, rather than price or perceived cultural fit; and
  6. firms who decline the invitation to tender are asked to provide feedback to the Committee on their reasons.
- 8.21 **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;
- 8.22 make **recommendations** on their remuneration, including both fees for audit or non-audit services, and ensure that the level of fees is appropriate to enable an adequate audit to be conducted;
- 8.23 **approve** the terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 8.24 **develop, approve** and **monitor** a policy in relation to the provision of external audit services, to include:
- the employment of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements; and
  - the provision of non-audit services by the auditor, including approval of non-audit services by the Committee and specifying the type of non-audit services to be pre-approved and assessment of whether non-audit services have a direct or material effect on the audited financial statements.
- and report to the Board on any improvement or action required.
- 8.25 **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;
- 8.26 **oversee** the relationship with the external auditor:
- Discuss with the external auditor the factors that could affect audit quality and review;
  - **Approve** the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise, and experience of the audit team;
  - Ensure coordination of the external audit with the activities of the internal audit function; and
  - Evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee.
- 8.27 **review** any representation letter(s) requested by the external auditor before they are signed by management;

8.28 **review** the findings of the audit with the external auditor. Including but not limited to:

- a discussion of any major issues which arose during the audit;
- the effectiveness of the audit process, including the auditor's explanation of how risks to audit quality were addressed;
- key accounting and audit judgements;
- the auditor's view of their interactions with senior management; and
- levels of errors identified during the audit.

8.29 the management letter and management's response to the auditor's findings and recommendations;

8.30 **assess** annually the auditor's independence and objectivity, by:

- taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the Group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of non-audit services;
- satisfying itself that there are no relationships between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- monitoring the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff; and
- monitoring the level of fees paid by the company to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard.

8.31 **assess** annually the qualifications, expertise and resources of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures; and

8.32 **investigate**, if an auditor resigns, the issues leading to this and decide whether any action is required.

## 9. Reporting responsibilities

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

9.2 Specifically, the Committee shall formally report to the Board:

- the significant issues that it considered in relation to the financial statements and how these were addressed;
- its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
- any other issues on which the Board has requested the Committee's opinion.

9.3 The Committee shall produce 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 the matters communicated to it by the auditor;
- how the effectiveness of the external audit process was assessed, and the approach taken to the appointment or reappointment of the external auditor;
- the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans;
- how auditor objectivity and independence is safeguarded if the external auditor provides non audit services; and
- all other information requirements set out in the UK Corporate Governance Code.

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

9.5 In compiling the reports referred to in 9.2 and 9.4, the Committee should:

- exercise judgement 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 are able to recommend to the Board that it is considered appropriate to adopt the going concern basis of accounting in preparing the financial statements and have identified any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements and recommend such 'Going Concern' statement to the Board for their approval; and
- having taken account of the Company's current position and principal risks assessed the prospects of the Company, what period the assessment covered, and why this period was appropriate and that there is a reasonable expectation that the Company will be able to continue its operation and meet its liabilities as they fall due, over the period of the assessment, drawing attention to any qualifications or assumptions as necessary and recommend to the Board that a 'Viability Statement' as required by the FRC can be made and recommend such statement to the Board for their approval.

9.6 The Board or Committee will, at least annually, review the Committee's performance and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes considered necessary.

## **10. Authority, advice and resources**

10.1 The Committee is authorised by the Board to determine Company policy within its terms of reference giving due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules, as appropriate.

10.2 In carrying out its duties, the Committee is authorised to seek any information it requires from any employee and all employees shall be directed to co-operate with any request made by the Committee. It shall have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required and is authorised by the Board to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference.

10.3 The Committee will 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.

10.4 The Committee has the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.

# AUDIT COMMITTEE - TERMS OF REFERENCE



Hill & Smith PLC

**Approved by the Board  
January 2023**