

## **AUDIT COMMITTEE TERMS OF REFERENCE (JULY 2016)**

### **1 MEMBERSHIP**

- 1.1 The committee shall comprise at least three members. Members of the committee shall be appointed by the board, on the recommendation of the nominations committee in consultation with the committee chairman.
- 1.2 All members of the committee shall be independent non-executive directors. At least one member of the audit committee shall have recent and relevant financial experience, ideally with a professional qualification from one of the professional accountancy bodies and at least one (same or other) member must have competence in accounting or auditing, or both. The members of the committee as a whole must have competence relevant to the travel sector (as the sector in which the company is operating).
- 1.3 The chairman of the board shall not be a member of the committee.
- 1.4 Only members of the committee have the right to attend and vote at committee meetings. However, other individuals including the Chief Executive, the Chief Financial Officer, the Group Financial Controller, the Head of Tax and Risk and the Head of Internal Audit may be invited to attend all or part of any meeting as and when appropriate and necessary. Any other member of the board may attend all or part of the meeting with the prior approval of the committee chairman.
- 1.5 The external auditor will be invited to attend meetings of the committee on a regular basis.
- 1.6 Appointments to the committee shall be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.
- 1.7 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 themselves to chair the meeting.

### **2 SECRETARY**

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**

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

### **4 FREQUENCY OF MEETINGS**

- 4.1 The committee shall meet at least four times a year at appropriate times in the financial reporting and audit cycle and otherwise as required.

- 4.2 Outside of the formal meeting programme, the committee chairman will maintain a dialogue with key individuals involved in the company's governance, including the board chairman, the Chief Executive, the Chief Financial Officer, the external audit lead partner and the Head of 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 any of its members or at the request of the external audit lead partner and the 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, in sufficient time to allow the committee to consider the papers and for the board to follow up on any recommendations if necessary. Supporting papers shall be sent to the committee members and to other attendees as appropriate, at the same time.

## **6 MINUTES OF MEETINGS**

- 6.1 The company secretary (or his or her nominee) 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 and the external auditors. Once approved, minutes should be circulated to all other members of the board unless it would be inappropriate to do so in the opinion of the committee chairman.
- 6.3 A resolution in writing authenticated by all committee members who would be entitled to vote (and which may consist of several documents in the same form each authenticated by one or more of the committee members) will be as effective as a resolution passed at a committee meeting. Any written resolution shall be tabled and noted at the next meeting of the committee.

## **7 VOTING ARRANGEMENTS**

- 7.1 Each committee member shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a committee meeting (whether in person or by audio or video conference).
- 7.2 If a matter that is considered by the committee is one where a committee member, either directly or indirectly has a conflict of interest, that member shall not be permitted to vote at the meeting.
- 7.3 Except where he/she is not permitted to vote, the committee chairman shall have a casting vote.

- 7.4 The committee chairman may ask any attendees of a committee meeting to leave the meeting to allow discussions of matters relating to them.

## **8 ANNUAL GENERAL MEETING**

The committee chairman should attend the annual general meeting to answer shareholder questions on the committee's activities and areas of responsibility.

## **9 ROLE**

- 9.1 The role of the committee is to assist the board in fulfilling its oversight responsibilities by reviewing and monitoring:
- 9.1.1 the integrity of the financial information provided to shareholders.
  - 9.1.2 the company's system of internal controls and risk management.
  - 9.1.3 the internal and external audit process and auditors.
  - 9.1.4 the processes for compliance with laws, regulations and ethical codes of practice.

## **10 DUTIES**

The committee should carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

### **10.1 Financial reporting**

- 10.1.1 The committee shall monitor the integrity of the financial statements of the company and the group, including its annual and half-yearly reports, interim management statements, preliminary results 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 external auditor.
- 10.1.2 In particular, the committee shall review and challenge where necessary:
- 10.1.2.1 the quality, appropriateness and consistency of, and any changes to, significant accounting policies both on a year on year basis and across the company/group;
  - 10.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 10.1.2.3 whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
  - 10.1.2.4 the clarity and completeness of disclosure in the company's financial reports and the context in which statements are made;

- 10.1.2.5 all material information presented with the financial statements, such as the strategic report and the corporate governance statement insofar as it relates to audit and risk management; and
- 10.1.2.6 the assumptions or qualifications in support of the going concern statement (including any material uncertainties as to the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements) and the longer term viability statement (including an assessment of the prospects of the company and the group looking forward over an appropriate and justified period).
- 10.1.3 Where the committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board.

## **10.2 Narrative reporting**

Where requested by the board, the committee should review 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 performance, business model and strategy.

## **10.3 Internal controls and risk management systems**

The committee shall (on behalf of the board which retains overall responsibility for risk management):

- 10.3.1 keep under review the adequacy and effectiveness of the company's internal financial controls and internal control and risk management systems; and
- 10.3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.

## **10.4 Risk management and ongoing viability**

The committee shall:

- 10.4.1 review the effectiveness of the risk management function at least annually, and seek such assurance as it may deem appropriate that the function is adequately resourced and has appropriate standing within the company, with the risk management process being appropriately embedded into the business;
- 10.4.2 review the assurance reports from management on the effectiveness of the internal control and risk management systems and from internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control;
- 10.4.3 approve the appointment or termination of appointment of the Head of Risk and Tax;

- 10.4.4 ensure the Head of Risk and Tax is given the right of unfettered direct access to the chairman of the board and to the committee; and
- 10.4.5 review the timeliness of, and reports on, the effectiveness of corrective action taken by management in response to any material external or internal audit recommendation; and

## **10.5 Compliance, whistleblowing and fraud**

The committee shall:

- 10.5.1 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 follow up action;
- 10.5.2 annually review the company's procedures for detecting fraud; and
- 10.5.3 review the company's systems and controls for ethical behaviour and the prevention of bribery and receive reports on non-compliance.

## **10.6 Internal audit**

The committee shall:

- 10.6.1 approve the appointment or termination of appointment of the Head of Internal Audit;
- 10.6.2 review and approve the charter of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors. The committee shall also ensure that the function has adequate standing and is free from management or other restrictions;
- 10.6.3 ensure the Head of Internal Audit has direct access to the board chairman and to the committee chairman, and is accountable to the committee;
- 10.6.4 review and assess the annual internal audit work plan (ensuring that it is aligned to the key risks of the business) and be advised of the reasons for any change or delay in the plan and ensure co-ordination between the internal and external auditors;
- 10.6.5 review a report on the results of the internal auditor's work on a periodic basis;
- 10.6.6 review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- 10.6.7 meet with 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; and

10.6.8 monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system.

## **10.7 External Audit**

The committee shall:

10.7.1 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;

10.7.2 ensure that at least once every ten years the audit services contract is put out to tender to enable the committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;

10.7.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;

10.7.4 oversee the relationship with the external auditor including (but not limited to):

10.7.4.1 recommendations on their remuneration, including both fees for audit and non-audit services, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;

10.7.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year;

10.7.4.3 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;

10.7.4.4 satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company outside the ordinary course of business (which includes non-audit business activity) which could adversely affect the auditor's independence and objectivity, or the audit process, and seek information from the external auditor about their policies and processes for maintaining independence and monitoring compliance;

10.7.4.5 agreeing with the board a policy on the employment of former employees of the company's auditor, then monitoring the implementation of this policy;

- 10.7.4.6 monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
  - 10.7.4.7 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;
  - 10.7.4.8 seeking to ensure co-ordination with the activities of the internal audit function; and
  - 10.7.4.9 evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation;
- 10.7.5 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;
- 10.7.6 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 10.7.7 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- 10.7.7.1 a discussion of any major issues which arose during the audit;
  - 10.7.7.2 key accounting and audit judgements;
  - 10.7.7.3 levels of errors identified during the audit; and
  - 10.7.7.4 the effectiveness of the audit process;
- 10.7.8 review any representation letter(s) requested by the external auditor before they are signed by management and consider whether, based on its knowledge, the information provided is complete and appropriate;
- 10.7.9 review prior to its consideration by the board, the external auditor's report to the directors and the management letter and management's response to the auditor's findings and recommendations; and
- 10.7.10 develop, implement and monitor a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## **10.8 Authorisation of Conflicts of Interest**

- 10.8.1 The committee shall be the primary body for reviewing any director's potential conflict of interests whether this relates to a situational conflict or a transactional conflict<sup>1</sup>. However the committee will only need to approve a situational conflict; a transactional conflict will only need to be declared to the committee (or board if applicable, as set out further below).
- 10.8.2 The process for dealing with any potential conflict of interest shall be as follows:
- 10.8.2.1 Any director who finds him/herself in a potential conflict of interest shall contact the board chairman and the committee chairman as soon as possible and shall provide appropriate details in writing of the circumstances giving rise to the conflict situation in accordance with that director's legal duty to the company (including as to updated information about pre-approved conflicts of interest).
- 10.8.2.2 The board chairman and the committee chairman shall confirm that the committee is the appropriate body to review the potential conflict. Where a quorum is not achievable at short notice or the committee chairman is the subject of the potential conflict or the potential conflict is of fundamental significance to the company or in any other appropriate circumstances at the committee chairman's discretion (including the declaration of a transactional conflict), the review of the circumstances may be remitted back to the full board.
- 10.8.2.3 Provided that the committee is the appropriate body to review the potential conflict, the committee chairman will call a meeting of the committee on reasonable notice. At the meeting, if the potential conflict is a 'situational' conflict, the committee must decide whether or not to approve this taking into account their duties as directors under the Companies Act 2006. Where the conflict is a transactional conflict, it is sufficient for the conflict to be declared to the committee, and such a conflicted director will not be able to vote on a board resolution relating to the relevant transaction.
- 10.8.2.4 In addition to approving a potential situational conflict unconditionally, the committee may approve the potential conflict subject to conditions that they may prescribe which they consider are in the best interests of the company or, alternatively to determine that the conflict is not approved and

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<sup>1</sup> A situational conflict is a conflict relating to situations where a director has or could have a direct or indirect conflict of interest with the Company's interest. For example, if a NED is a Director of Company A and Company B, operating in the same industry but not necessarily competing, this is a potential 'situational' conflict. A transactional conflict of interest is a conflict which involves a potential or existing transaction/arrangement with the Company. With the previous example, if Company A then proposes to enter into a contract with Company B, this becomes a 'transactional' conflict.

that the director must resolve the circumstances giving rise to the conflict (within a set time period if appropriate) before he/she is entitled to continue service on the board of the company.

10.8.2.5 Any approval (conditional or otherwise) may be amended or withdrawn at any time by the committee (or the board, as appropriate) in the event of relevant new information being presented to the committee.

## **11 REPORTING RESPONSIBILITIES**

- 11.1 The committee chairman shall report to the board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also report to the board on how it has discharged its responsibilities. This report shall include:
- 11.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 10.1.1) and how these were addressed;
  - 11.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 10.7.4.7) and its recommendation on the appointment or reappointment of the external auditor;
  - 11.1.3 any other issues on which the board has requested the committee's opinion. In doing so it should identify any matters in respect of which it considers that action or improvement is needed, whether the subject of a specific request by the board or not, and make recommendations as to the steps to be taken. The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.2 The committee shall compile 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 matters communicated to it by the auditor; and all other information requirements set out in the Code.
- 11.3 In the compiling the reports referred to in 11.1 and 11.3, 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 the longer term viability statement. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

## **12 OTHER MATTERS**

The committee shall:

- 12.1 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 12.2 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;
- 12.3 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules, as appropriate;
- 12.4 be responsible for co-ordination of the internal and external auditors;
- 12.5 oversee any investigation of activities which are within its terms of reference;
- 12.6 work and liaise as necessary with all other board committees; and
- 12.7 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.

## **13 AUTHORITY**

The committee is authorised to:

- 13.1 carry out all duties set out in these terms of reference, to have unrestricted access to the company's documents and information and to obtain, at the company's expense, appropriate professional advice on any matter within its terms of reference as it considers necessary.
- 13.2 seek any information it requires from any employee of the company in order to perform its duties;
- 13.3 obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes necessary to do so;
- 13.4 call any employee to be questioned at a meeting of the committee as and when required;
- 13.5 collectively and individually have direct access to the Chief Financial Officer, the Head of Risk and Tax, the Head of Internal Audit and the company's external auditors; and
- 13.6 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.