

Terms of Reference for the Audit Committee (the "Committee")

Of

Empresaria Group plc (the "Company")

1. Membership

- 1.1 The Committee shall comprise at least two members, all of whom shall be independent non-executive directors. At least one member shall have recent and relevant financial experience and the Committee as a whole shall have competence relevant to the sector in which the Company operates.¹ The Chair of the Board shall not be a member of the Committee.²
- 1.2 Appointments to the Committee are made by the Board on the recommendation of the Nomination Committee and in consultation with the Committee Chair³ and shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the members continue to be independent.
- 1.3 Only members of the Committee have the right to attend Committee meetings. However, the Chief Financial Officer and external audit lead partner will be invited to attend meetings of the Committee on a regular basis and other individuals may be invited to attend all or part of any meeting as and when appropriate.⁴
- 1.4 The Board shall appoint the Committee Chair. 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.
- 1.5 The Committee Chair shall review membership of the Committee annually as part of the annual performance evaluation of the Committee.

2. Secretary

- 2.1 The company secretary, or their 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.⁵

3. Quorum

- 3.1 The quorum necessary for the transaction of business shall be two members.⁶

4. Frequency of meetings

- 4.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.⁷

¹ Code Provision 24 and FRC Guidance, para 15

² Code Provision 24

³ FRC Guidance, para 13

⁴ FRC Guidance on Board Effectiveness 201, para 64 and FRC Guidance, para 20

⁵ FRC Guidance, para 25

⁶ As Code provision 24 requires that at least one member of the Committee has recent and relevant financial experience, and DTR 7.1.1.A R states that one member of the Committee must have competence in accounting and/or auditing, it would be preferable for any quorum to include such a member, whenever possible.

⁷ FRC Guidance para 18 :The frequency and timing of meetings will differ according to the needs of the Company; meetings should be held to coincide with key dates within the financial reporting and audit cycle (for example by timetabling when the audit plans (internal and external) are available for review and when interim statements, preliminary announcements and the full Annual Report are near completion). So that attendance is maximised board meetings and committee meetings should be timetabled to coincide.

4.2 Outside of the formal meeting programme, the Committee Chair will maintain a dialogue with key individuals involved in the Company's governance, including the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer and the external audit lead partner.⁸

5. **Notice of meetings**

5.1 Meetings of the Committee shall be called by the company secretary at the request of the Committee Chair or any of its members or at the request of the external audit lead partner 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 and any other person required to attend 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 company secretary or his / her nominee shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.

6.2 Draft minutes of the Committee meetings shall be circulated to all members of the Committee. Once approved, minutes should be made available to all other members of the Board and the company secretary unless, exceptionally, in the opinion of the Committee Chair it would be inappropriate to do so.⁹

7. **Engagement with shareholders**

7.1 The Committee Chair should attend the Company's Annual General Meeting to answer any shareholder questions on the Committee's activities.¹⁰

7.2 The Committee Chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.¹¹

8. **Duties¹²**

8.1 The Committee should carry out the duties below for the parent company, major subsidiary undertakings and the Group as a whole, as appropriate.¹³

8.2 **Financial reporting**

(a) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, preliminary announcements and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.¹⁴

(b) In particular, the Committee shall review and challenge where necessary:¹⁵

- (i) the application of significant accounting policies and any changes to them;
- (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
- (iii) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;

⁸ FRC Guidance, para 22

⁹ FRC Guidance on Board Effectiveness 2018, para 65

¹⁰ FRC Guidance, para 85 and FRC Guidance on Board Effectiveness 2018, para 38

¹¹ Code provision 3 and FRC Guidance on Board Effectiveness 2018, para 38

¹² Code requirements on the main roles and responsibilities of the Audit Committee can be found at Provision 25

¹³ FRC Guidance, para 7

¹⁴ FRC Guidance, para 32. See also FRC Guidance, para 83 which clarifies that the Audit Committee would not be expected to disclose information that would be prejudicial to the interests of the company.

¹⁵ FRC Guidance, para 32 to 38

- (iv) the clarity and completeness of disclosure in the financial statements and the context in which statements are made;
 - (v) all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.
- (c) 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.¹⁶

8.3 **Narrative reporting**

- (a) Where requested by the Board, the Committee should review the content of the Company's 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 strategy¹⁷ and whether it informs the Board's statement in the Annual Report on these matters that is required under the Code.¹⁸

8.4 **Internal controls and risk management systems**¹⁹

- (a) The Committee shall:
- (i) keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;²⁰
 - (ii) review and approve the statements to be included in the Annual Report concerning internal control, risk management, including the assessment of principal risks and emerging risks.²¹

8.5 **Compliance, speaking-up and fraud**²²

- (a) The Committee shall:
- (i) review the adequacy and security of the Company's arrangements for its employees, contractors and external parties 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;²³
 - (ii) review the Company's procedures for detecting fraud; and
 - (iii) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

8.6 **Internal audit**

- (a) Where there is no internal audit function, the Committee shall:
- (i) consider annually whether there is a need for an internal audit function;
 - (ii) make a recommendation to the Board; and

¹⁶ FRC Guidance, para 35

¹⁷ Code Provision 25 and FRC Guidance, para 37

¹⁸ Code Provision N and Code Provision 27

¹⁹ Code Provision 25 See also FRC Guidance, para 41. If the Company has a separate Risk Committee the review of internal controls and risk management systems could be included in the duties of that Committee.

²⁰ Code Provision 25. See also FRC Guidance, paras 40 and 41

²¹ Unless this is carried out by the Board or Risk Committee. Code Provision 28 and FRC guidance para 44

²² If the Board has a separate Risk Committee, the duties of that Committee could include speaking-up, fraud, the prevention of bribery and procedures for compliance with the Modern Slavery Act 2015. Where the company is required by regulation to have in place a designated non-executive director as 'speaking-up champion', the interaction of their responsibility with the Committee's will need to be considered and suitable arrangements put in place.

²³ FRC Guidance on Board Effectiveness 2018, para 57-59

- (iii) the reasons for the absence of such a function should be explained in the relevant section of the Annual Report.²⁴
- (b) Where there is an internal audit function, the Committee shall:
 - (i) approve the appointment or termination of appointment of the head of internal audit;²⁵
 - (ii) review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;²⁶
 - (iii) review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business,²⁷ and receive regular reports on work carried out;
 - (iv) ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors;²⁸
 - (v) ensure the internal auditor has direct access to the Chair of the Board and to the Committee Chair, providing independence from the executive and accountability to the Committee;²⁹
 - (vi) carry out an annual assessment of the effectiveness of the internal audit function³⁰ and as part of this assessment:
 - (A) meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
 - (B) review and assess the annual internal audit work plan;
 - (C) receive a report on the results of the internal auditor's work;³¹
 - (D) determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business;³²
 - (E) review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;³³
 - (vii) monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor;³⁴
 - (viii) consider whether an independent, third party review of processes is appropriate.³⁵

8.7 **External Audit**

8.8 The Committee shall:

²⁴ Code Provision 26 and FRC Guidance 45, 46, 47 and 56

²⁵ FRC Guidance, para 52

²⁶ FRC Guidance, para 48

²⁷ FRC Guidance, para 49

²⁸ FRC Guidance, para 50 and 51. Guidance about the standards can be found in the Chartered Institute of Internal Auditors' Code of Ethics and International Standards for the Professional Practice of Internal Auditing.

²⁹ FRC Guidance, para 52

³⁰ FRC Guidance, para 53

³¹ FRC Guidance, para 54

³² FRC Guidance, para 53

³³ FRC Guidance, para 53

³⁴ FRC Guidance, para 49. If the Board has a separate Risk Committee, the duties of that Committee could include review of the Company's internal control and risk management systems.

³⁵ FRC Guidance, para 55

- (a) consider and make appropriate recommendations to the Board, to be put to shareholders for approval at the Company's Annual General Meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor;³⁶
- (b) develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;³⁷
- (c) if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;³⁸
- (d) oversee the relationship with the external auditor and in this context the Committee shall:
 - (i) approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted;³⁹
 - (ii) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;⁴⁰
- (e) assess annually the external auditor's independence and objectivity⁴¹ taking into account relevant law, regulation, the Ethical Standard⁴² 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 threats⁴³ including the provision of any non-audit services;⁴⁴
- (f) satisfy 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;⁴⁵
- (g) agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard⁴⁶ and legal requirements, and monitor the application of this policy;⁴⁷
- (h) monitor the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard,⁴⁸ including the guidance on the rotation of audit partner and staff;⁴⁹
- (i) monitor 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;⁵⁰
- (j) assess annually the qualifications, expertise and resources, and independence 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;⁵¹
- (k) seek to ensure coordination of the external audit with the activities of any internal audit function;

³⁶ Code Provision 25 and FRC Guidance para 58 and 60.

³⁷ FRC Guidance, para 59. For additional guidance see FRC Audit Tenders Notes on Best Practice February 2017.

³⁸ FRC Guidance, para 61

³⁹ Code Provision 25 and FRC guidance, paras 63 and 65

⁴⁰ Code Provision 25 and FRC guidance, paras 63 and 64

⁴¹ Code Provision 25

⁴² FRC Revised Ethical Standard December 2019

⁴³ FRC Guidance, para 66

⁴⁴ FRC Guidance, para 71

⁴⁵ FRC Guidance, para 66

⁴⁶ FRC Revised Ethical Standard December 2019, section 2

⁴⁷ FRC Guidance, par 69

⁴⁸ FRC Revised Ethical Standard December 2019

⁴⁹ FRC Guidance, para 66, 67, 68 and 70

⁵⁰ FRC Guidance, para 67 See also FRC Revised Ethical Standard December 2019, section 4

⁵¹ FRC guidance, para 60

- (l) 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;⁵²
- (m) develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.⁵³ The policy should include consideration of the following matters:
 - (i) threats to the independence and objectivity of the external auditor and any safeguards in place;
 - (ii) the nature of the non-audit services;
 - (iii) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (iv) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee;
 - (v) the criteria governing compensation;⁵⁴
- (n) 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, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;⁵⁵
- (o) discuss with the external auditor the factors that could affect audit quality and review and 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;⁵⁶
- (p) review the findings of the audit with the external auditor, which shall include but not be limited to, the following:
 - (i) a discussion of any major issues which arose during the audit;
 - (ii) the auditor's explanation of how the risks to audit quality were addressed;
 - (iii) key accounting and audit judgements;
 - (iv) the auditor's view of their interactions with senior management;
 - (v) levels of errors identified during the audit;⁵⁷
- (q) review any representation letter(s) requested by the external auditor before it is (they are) signed by management;⁵⁸
- (r) review the management letter and management's response to the auditor's findings and recommendations;⁵⁹
- (s) review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee.⁶⁰

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 and shall also formally report to the Board on how it has discharged its responsibilities.⁶¹ This report shall include:

⁵² FRC Guidance, par 62

⁵³ Code Provision 25 and FRC Guidance, para 71 to 74

⁵⁴ Code Provision 25 and FRC Guidance, para 72

⁵⁵ FRC guidance, para 21

⁵⁶ FRC Guidance, para 75

⁵⁷ FRC Guidance, para 76

⁵⁸ FRC Guidance, para 77

⁵⁹ FRC Guidance, para 77

⁶⁰ FRC Guidance, paras 78 and 79

⁶¹ Code Provision 25

- (a) The significant issues that it considered in relation to the financial statements (required under **paragraph 8.2(a)**) and how these were addressed;
 - (b) Its assessment of the effectiveness of the external audit process (required under **paragraph 8.8(j)**) and its recommendation on the appointment or reappointment of the external auditor; and
 - (c) Any other issues on which the Board has requested the Committee's opinion.⁶²
- 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 compile a report on its activities to be included in the Company's Annual Report.⁶³ The report should describe the work of the Committee, including
- (a) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
 - (b) an explanation of how the Committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any retendering plans; and
 - (c) an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor; and all other information requirements set out in the Code.⁶⁴
- 9.4 In compiling the reports referred to in **paragraphs 9.1** and **9.3**, 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 concern⁶⁵. The report to shareholders need not repeat information disclosed elsewhere in the Annual Report and Accounts, but could provide cross-references to that information.⁶⁶
10. **Other matters**
- 10.1 The Committee shall:
- (a) Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for advice and assistance as required.⁶⁷
 - (b) 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.⁶⁸
 - (c) Give due consideration to all relevant laws and regulations, the provisions of the Code and associated guidance, the requirements of the FCA's Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate.
 - (d) Be responsible for co-ordination of the internal and external auditors.⁶⁹
 - (e) Oversee any investigation of activities which are within its terms of reference.
 - (f) Work and liaise as necessary with all other Board committees ensuring interaction between committees and with the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees.⁷⁰
 - (g) Ensure that a periodic evaluation of the Committee's performance is carried out.

⁶² FRC Guidance, para 29

⁶³ Code Provision 26

⁶⁴ See also ISA 700 (UK and Ireland). International Standard on Auditing (Revised June 2016).

⁶⁵ FRC Guidance, para 44 and 82

⁶⁶ FRC Guidance, para 84

⁶⁷ Code Provision 16, FRC Guidance on Board Effectiveness 2018, para 79 to 85 and FRC Guidance, para 23

⁶⁸ FRC Guidance on Board Effectiveness, para 81

⁶⁹ FRC Guidance para 49

⁷⁰ FRC Guidance on Board Effectiveness para 65 and FRC Guidance, para 43

- (h) 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.⁷¹

11. **Authority**

11.1 The Committee is authorised to:

- (a) Seek any information it requires from any employee or officer of the Group in order to perform its duties.
- (b) Obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so.⁷²
- (c) Call any employee or officer to be questioned at a meeting of the Committee as and when required.
- (d) 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.⁷³ If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the Annual Report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.⁷⁴

⁷¹ FRC Guidance on Board Effectiveness, para 63

⁷² FRC Guidance on Board Effectiveness 2018, para 83 and FRC Guidance, para 26

⁷³ FRC Guidance, para 30

⁷⁴ Code Provision 26