

## **TERMS OF REFERENCE**

### **AUDIT COMMITTEE**

#### **1. Constitution**

- 1.1. The Audit Committee is a committee of Charles Stanley Group PLC, reporting and making recommendations directly to the Group Board.
- 1.2. These Terms of Reference are approved by the Group Board.

#### **2. Membership**

- 2.1. The Committee shall include at least one member who is independent as described in the Combined Code, and one member who has competence in accounting and/or auditing.
- 2.2. The members of the Committee as at 7 December 2010 are

Gordon Montgomery FCA (who shall act as Chairman)  
Michael Clark  
Michael Lilwall  
Gary Teper

Of whom a quorum shall be two.

- 2.3. Additionally the following may attend meetings of the Committee, except for one meeting a year which shall be held between the Committee members alone and the External Auditors

David Howard  
Peter Hurst  
Venetia Malpas  
Mac Anderson  
Martina Murphy  
Uma Palasanthiran  
Paul Watson

together with such other personnel, professional advisers, and representatives of the External Auditors as the Committee may decide.

#### **3. Frequency of Meetings**

- 3.1. The Committee shall meet on scheduled dates at least four times a year, and at such further times as it deems appropriate.

#### **4. Minutes, and relationship with the Group Board**

- 4.1. The Committee shall record its proceedings and submit the minutes to the next following meeting of the Group Board. The Chairman of the Committee shall be entitled to attend any Group Board meeting at which matters touching on the work of the Committee are discussed, or at which he wishes to raise issues relating to the work of the Committee.

#### **5. Responsibilities of the Audit Committee**

5.1. As a Committee of the Board of Charles Stanley Group PLC, and subject to the direction of the Board (with the authority to make dissenting reports where appropriate):

## **6. The financial reporting process**

6.1. The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, interim management statements, and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain.

6.2. In particular, the committee shall review and challenge where necessary –

- 6.2.1. the consistency of, and any changes to, accounting policies both on a year on year basis and across the company/group;
- 6.2.2. the methods used to account for significant or unusual transactions where different approaches are possible;
- 6.2.3. whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 6.2.4. the clarity of the disclosure in the company's financial reports and the context which statements are made; and
- 6.2.5. all material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

## **7. Internal controls and risk management systems**

7.1. The committee shall

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

## **8. External audit**

8.1. The committee shall

- 8.1.1. 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 a new auditor and if an auditor resigns the committee shall investigate the issues leading to this and decide whether any action is required.
- 8.1.2. oversee the relationship with the external auditor including (but not limited to)

- 8.1.3. recommendations on 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;
  - 8.1.3.1. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 8.1.3.2. assessing annually their independence and objectively 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;
  - 8.1.3.3. 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);
  - 8.1.3.4. monitoring the 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;
  - 8.1.3.5. 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; and
  - 8.1.3.6. seeing to ensure co-ordination with activities of the internal audit function.
- 8.1.4. 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 audit;
- 8.1.5. review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement;
- 8.1.6. review the findings of the audit with the external auditor. This shall include but not be limited to, the following
  - 8.1.6.1. a discussion of any major issues which arose during the audit;
  - 8.1.6.2. any accounting and audit judgements;
  - 8.1.6.3. levels of errors identified during the audit; and
  - 8.1.6.4. the effectiveness of the audit.

The committee shall also

- 8.1.7. review any representation letter(s) requested by the external auditor before they are signed by management;

Reviewed 7 December 2010

- 8.1.8. review the management letter and management's response to the auditor's findings and recommendations; and
- 8.1.9. develop and implement a policy on the supply of non-audit services by an external auditor, taking into account any relevant ethical guidance.

## **9. Internal audit**

9.1. The committee shall

- 9.1.1. monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system;
- 9.1.2. consider and approve the remit of the internal audit function and ensure that 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 restrictions;
- 9.1.3. review and assess the annual internal audit plan;
- 9.1.4. review reports addressed to the committee from the internal auditor;
- 9.1.5. review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 9.1.6. 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 the committee.

## **10. Whistle-blowing**

10.1. To review and monitor the Company's whistle-blowing arrangements

## **11. Other matters**

11.1. The committee shall

- 11.1.1. have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 11.1.2. 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;
- 11.1.3. be responsible for co-ordination of the internal and external auditors;
- 11.1.4. oversee any investigation of activities which are within its terms of reference;

11.1.5. 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; and

11.1.6. recommend to the Board the adoption of such further responsibilities as may be appropriate in the light of such developments, and to undertake them at the instigation of the Board

## **12. Authority**

12.1. The committee is authorised

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

12.1.2. to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference;

12.1.3. to call any employee to be questioned at a meeting of the committee as and when required; and

12.1.4. to 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.