

## **Vertu Motors plc (Company)**

### **AUDIT COMMITTEE TERMS OF REFERENCE**

#### **1. Constitution**

The Committee was constituted at a full meeting of the board of directors (**Board**) held on 17 November 2006 in accordance with the articles of association of the Company.

#### **2. Role**

The role of the Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring:

- 2.1 the integrity of the financial information provided to shareholders;
- 2.2 the Company's system of internal controls and risk management; and
- 2.3 the internal and external audit process and auditors.
- 2.4 the Company's processes for compliance with laws, regulations and ethical codes of practice in respect of its financial information and functions.

The Committee should carry out its duties for the Company, its subsidiaries and the group as a whole as appropriate.

#### **3. Duties and terms of reference**

##### **3.1 Financial Reporting**

The Committee shall:

- 3.1.1 monitor and endeavour to ensure the integrity of the financial statements of the Company, including its annual and interim reports, preliminary results' announcements and any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain. The Committee shall also review summary financial statements, significant financial returns to regulators and any financial information contained in certain other documents, such as announcements of a price sensitive nature.
- 3.1.2 review and challenge where necessary:
  - 3.1.2.1 the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company and its group;
  - 3.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
  - 3.1.2.3 whether the Company has followed appropriate statutory requirements and accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;

- 3.1.2.4 the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- 3.1.2.5 significant adjustments resulting from the external audit;
- 3.1.2.6 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 its group looking forward over an appropriate and justified period).and
- 3.1.2.7 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).
- 3.1.3 review and report to the board significant financial reporting issues and judgements which the financial statements, interim reports, preliminary announcements and related formal statements contain having regard to matters communicated to it by the external auditor.
- 3.1.4 where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, report its views to the board.

### 3.2 **Narrative Reporting**

- 3.2.1 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

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

The Committee shall:

- 3.3.1 keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems and, at least annually, carry out a review of its effectiveness and approve the statement to be included in the annual report concerning internal control; and
- 3.3.2 review and approve the statements to be included in the annual report concerning internal controls and risk management.
- 3.3.3 at least annually, ensure that a robust assessment of the principal risks facing the Company has been undertaken (including those risks that would threaten its business model, future performance, solvency or liquidity) and provide advice on the management and mitigation of those risks.
- 3.3.4 where requested by the board, provide advice on how, taking into account the Company's position and principal risks, the Company's prospects have been

assessed, over what period and why the period is regarded as appropriate. The Committee shall also advise on whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the said period, drawing attention to any qualifications or assumptions as necessary.

### 3.4 **Compliance, Whistleblowing and fraud**

The Committee shall:

- 3.4.1 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 follow up action.
- 3.4.2 review the Company's procedures for detecting fraud.
- 3.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.
- 3.4.4 review regular reports from the Money Laundering Reporting Officer and the effectiveness and adequacy of the Company's anti-money laundering systems and controls;
- 3.4.5 keep under review the adequacy and effectiveness of the Company's compliance function.

### 3.5 **Management and internal and external audit reports**

The Committee shall:

- 3.5.1 review the assurance reports from management on the effectiveness of the internal control and risk management systems and from the internal audit, the external auditor and others on the operational effectiveness of matters related to risk and control.
- 3.5.2 (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.

### 3.6 **Disclosures**

The Committee shall:

- 3.6.1 consider any necessary disclosure implications of the process that has been applied by the board to deal with material internal control aspects of any significant problems disclosed in the annual report and accounts.
- 3.6.2 consider the major findings of any relevant internal investigations into risk and control weaknesses, fraud, or misconduct and management's response, and

also consider whether any such failings or weaknesses are significant and therefore require disclosure, the basis and accuracy of explanations given as to what actions are being taken to address them, and whether the level of disclosure of such actions is appropriate.

### **3.7 Internal Audit**

The Committee shall:

- 3.7.1 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system and the work of compliance, finance and the external auditor;
- 3.7.2 approve the appointment and removal of the head of the internal audit function;
- 3.7.3 ensure that the head of the internal audit function has direct access to the Committee Chairman and is accountable to the Committee;
- 3.7.4 consider and approve the remit of the internal audit function and ensure 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 or other restrictions and that there is proper co-ordination with the external auditors;
- 3.7.5 review and assess the annual internal audit plan and ensure that it is aligned to the key risks of the Company's 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 where relevant;
- 3.7.6 receive a report on the results of the internal auditor's work on a periodic basis;
- 3.7.7 review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- 3.7.8 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.
- 3.7.9 monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system, irrespective of whether this is an in-house or outsourced function.

### **3.8 External Audit**

The Committee shall:

- 3.8.1 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. 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;

- 3.8.2 develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process;
- 3.8.3 oversee the relationship with the external auditor including (but not limited to):
  - 3.8.3.1 approval of their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
  - 3.8.3.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - 3.8.3.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements (including any relevant ethical standard) and the relationship with the auditor as a whole, including any threats to the auditors' independence and safeguards applied to mitigate those threats including the provision of any non-audit services;
  - 3.8.3.4 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) which could adversely affect the auditor's independence and objectivity;
  - 3.8.3.5 agreeing with the board a policy on the employment of former employees of the Company's auditor taking into account any relevant ethical standard and legal requirements, then monitoring the implementation of this policy;
  - 3.8.3.6 monitoring the auditor's compliance with relevant ethical, legal regulatory 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; and
  - 3.8.3.7 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
  - 3.8.3.8 seeking to ensure co-ordination with the activities of the internal audit function; and
  - 3.8.3.9 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 on that evaluation.
- 3.8.4 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 their remit and any issues arising from the audit.
  - 3.8.5 discuss with the external auditor the factors that could affect audit quality and 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.
  - 3.8.6 review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
    - 3.8.6.1 a discussion of any major issues which arose during the audit,
    - 3.8.6.2 any key accounting and audit judgements, and
    - 3.8.6.3 the auditor's explanation of how the risks to audit quality were addressed;
    - 3.8.6.4 the auditor's view of their interactions with senior management;
    - 3.8.6.5 levels of errors identified during the audit.; and
    - 3.8.6.6 the effectiveness of the audit.
  - 3.8.7 review any representation letter(s) requested by the external auditor before they are signed by management.
  - 3.8.8 review the management letter and management's response to the auditor's findings and recommendations.
  - 3.8.9 develop and implement a policy on the supply of non-audit services by the external auditor, including 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. The Policy should include consideration of the following matters:
    - 3.8.9.1 threats to the independence and objectivity of the external auditor and any safeguards in place;
    - 3.8.9.2 the nature of the non-audit services;
    - 3.8.9.3 whether the external audit firm is the most suitable supplier of the non-audit service;
    - 3.8.9.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
    - 3.8.9.5 the criteria governing compensation.
  - 3.8.10 keep the policy for the provision of non-audit services under review;
  - 3.8.11 ensure that after ten years the Committee considers whether to put the audit services contract 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 any such tender, oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the tendering process.

- 3.8.12 evaluate 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 the auditor from the market in that evaluation.
- 3.8.13 seek reassurance from the external auditor and their staff that they have no relationships with the Company which could adversely affect the auditor's independence and objectivity and, at least annually, seek information from the external audit firm about policies and processes for maintaining independence and monitoring compliance.
- 3.8.14 consider communications from the external auditor on audit planning and findings on material weaknesses in accounting and internal control systems that come to the auditor's attention, including a review of material items of correspondence between the Company and the external auditor.
- 3.8.15 at the end of the audit cycle, assess the effectiveness of the audit process including:
  - 3.8.15.1 Reviewing whether the auditor has met the agreed audit plan.
  - 3.8.15.2 Understanding reasons for changes to the audit plan.
  - 3.8.15.3 Considering the external auditor's robustness and perceptiveness in handling key accounting and audit judgements and responding to the Committee's questions.
  - 3.8.15.4 Obtaining feedback from key people on the conduct of the audit.
  - 3.8.15.5 Reviewing and monitoring the content of the external auditor's management letter and reporting to the board on the effectiveness of the audit process.

### 3.9 Reporting Requirements

- 3.9.1 The Committee Chairman 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. This report shall include:
  - 3.9.1.1 the significant issues that it considered in relation to the financial statements and how these were addressed;
  - 3.9.1.2 its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor;
  - 3.9.1.3 an explanation of how the Committee has addressed the effectiveness of the internal audit process.

- 3.9.1.4 all other information requirements set out in the UK Corporate Governance Code; and
- 3.9.1.5 any other issues on which the Board has requested the Committee's opinion.
- 3.9.2 The Committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 3.9.3 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 and internal 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 auditors.
- 3.9.4 In compiling its reports, 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information

### 3.10 **Other Matters**

The Committee shall:

- 3.10.1 have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
  - 3.10.2 give due consideration to applicable laws and regulations, the provisions of the QCA Corporate Governance Code, and the requirements of the London Stock Exchange's rules for AIM companies as appropriate;
  - 3.10.3 be responsible for co-ordination of the internal and external auditors;
  - 3.10.4 oversee any investigation of activities which are within its terms of reference; and
  - 3.10.5 at least once a year, review its own performance, 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.
- 3.11 The Committee shall consider such other matters as may be requested by the board of directors.

## 4. **Membership**

- 4.1 The members of the Committee shall be appointed by the board of directors. The Committee shall (where there are sufficient relevant directors available) have at least two members and at least one member should have recent and relevant financial

experience. Each Committee member shall be an independent non-executive director as determined by the board (in accordance with the principles of the UK Corporate Governance Code), at least one of whom shall have recent and relevant experience working with financial and accounting matters. If any member of the Committee is deemed not to be independent, then the Board shall provide an explanation as to why they consider it appropriate for such director to be a member of the Committee.

- 4.2 A quorum shall be any two members of the Committee. The members of the Committee can be varied at any time by a decision of the board.
- 4.3 Appointments to the Committee shall be for a period of up to three years, which may be extended for two further periods. The board shall appoint the chairman of the Committee from among the independent non-executive directors and shall determine the period for which the chairman of the Committee will hold office. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present at a meeting shall elect one of their number present to chair the meeting.
- 4.4 Outside of the formal meeting programme, the Committee chairman shall maintain a dialogue with key individuals involved in the Company's governance, including the board chairman, the Chief Executive Officer, the Chief Financial Officer, the external audit lead partner and the head of internal audit.

## **5. Voting arrangements**

- 5.1 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 (in person or by telephone or other electronic means).
- 5.2 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 that part of the meeting.
- 5.3 Save where he has a personal interest, the Chairman will have a casting vote.

## **6. Attendance at meetings**

- 6.1 The Committee will meet at least three times a year. The Committee may meet at other times during the year as requested by any member of the Committee.
- 6.2 The Chief Financial Officer of the Company shall normally be invited to attend Committee meetings. Other non-members may be invited to attend all or part of any meeting as and when appropriate.
- 6.3 The Company's internal and/or external auditors may be required to attend Committee meetings, with a view to consulting with the Committee.
- 6.4 The company secretary or his or her nominee shall be the secretary of the Committee.

## **7. Notice of meetings**

- 7.1 Meetings of the Committee shall be summoned by the company secretary at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- 7.2 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 no later than seven 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.

## **8. Authority**

A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee. 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 internal and external auditors and to obtain, at the Company's expense, professional advice on any matter within its terms of reference. 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. The Committee shall also 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.

## **9. Reporting**

Draft 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 as a formal record of the decisions of the Committee on behalf of the Board.

## **10. General matters**

The Chairman of the Committee should make himself available at each Annual General Meeting of the Company to answer questions concerning the Committee's work during the preceding year.