

## HSS HIRE GROUP PLC (THE COMPANY)

### TERMS OF REFERENCE OF THE AUDIT AND RISK COMMITTEE (THE COMMITTEE) OF THE BOARD OF DIRECTORS OF THE COMPANY (THE BOARD)

adopted by the Board on 9 January 2015 as amended on 28 April 2016

#### 1. BACKGROUND

1.1 The Board has resolved to establish an audit and risk committee. These terms of reference replace any previous terms of reference for any audit and risk committee of the Board.

1.2 The Board has delegated to the Committee responsibility for overseeing the financial reporting and internal financial controls of the Company and its subsidiaries (collectively, the **group**), for reviewing the group's internal control and risk management systems, and for maintaining an appropriate relationship with the external auditor of the group.

#### 2. THE COMMITTEE'S DUTIES

The Committee performs the following duties for the Company, its major subsidiary undertakings and the group as a whole, as appropriate.

##### Financial reporting

2.1 To monitor the integrity of the Company's financial statements, including its annual and half-yearly reports, interim management statements, any preliminary results announcements and any other formal announcements relating to its financial performance, and to review and report to the Board on significant financial reporting issues and judgements which they contain (having regard to matters communicated to it by the external or the internal auditor).

2.2 To review significant financial returns to regulators and any significant financial information contained in other documents.

2.3 To review and challenge where necessary:

- (a) the consistency of, and any changes to, significant accounting and treasury policies on a year on year basis, across the Company and the group;
- (b) the methods used to account for significant or unusual transactions where different approaches are possible;
- (c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- (e) all material information presented with the financial statements, such as the strategic report, the corporate governance statement (insofar as it relates to the audit and risk management) and the internal control and risk management

statement.

2.4 To review the annual financial statements of any pension scheme relating to the Company or the group.

2.5 To assess the effectiveness of the group's financial reporting procedures.

2.6 Where the Committee is not satisfied with any aspect of the group's financial reporting, to report its views to the Board.

2.7 Where requested by the Board, to 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.

### **Internal audit**

2.8 To monitor and review the effectiveness of the group's internal audit function, in the context of the Company's overall risk management system.

2.9 To review and assess the annual internal audit plan and any proposed amendments that may occur through the following year. The review should include methods employed by the internal audit function to assess risk and to prioritise the various audit proposals identified in the annual internal audit plan.

2.10 To consider and approve the remit of the internal audit function, and to ensure it:

(a) has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and

(b) has adequate standing and is free from management or other restrictions.

2.11 To approve the appointment and removal of the head of the internal audit function.

2.12 To ensure the internal auditor has direct access to the Board chairman and to the Committee chairman, and is accountable to the Committee.

2.13 At the request of the Committee, to have internal audit provide a presentation of the work of the internal audit team.

2.14 To review reports addressed to the Committee from the internal auditor.

2.15 To review and monitor management's responsiveness to the findings and recommendations of the internal auditor.

2.16 To meet the head of internal audit at least once a year, without management present, to discuss their remit and any issues arising from the internal audit reviews.

### **External audit**

2.17 To consider and make recommendations to the Board on the appointment, re-appointment, resignation or removal of the group's external auditor, to be put to

shareholders for approval at the annual general meeting.

2.18 To ensure that at least once every 10 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 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.

2.19 To oversee the selection process for any new external auditor and, if an external auditor resigns, investigate the issues leading to this and decide whether any action is required.

2.20 To oversee the relationship with the external auditor, including but not limited to:

- (a) approving their remuneration, including fees for audit and non-audit services and ensuring that the fees are appropriate to enable an effective and high quality audit to be conducted;
- (b) approving their terms of engagement, including any engagement letter at the start of each audit and the scope of the audit;
- (c) annually monitoring and reviewing their independence and objectivity, and the effectiveness of the audit process, taking into account relevant legal, professional and regulatory requirements and the relationship with the external auditor as a whole, including the provision of any non-audit services;
- (d) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the external auditor and the group other than in the ordinary course of business which adversely affect their independence and objectivity;
- (e) agreeing with the Board a policy on the employment of former employees of the external auditor, taking account of relevant ethical standards, and monitoring the application of this policy;
- (f) monitoring the external auditor's compliance with relevant ethical and professional guidance on the rotation of audit partners, the fees paid by the group compared to the overall fee income of the firm, office and partner and other related regulatory requirements;
- (g) assessing annually their qualifications, expertise and resources and the effectiveness of the audit process, taking into account relevant professional and regulatory requirements, which must include a report from the external auditor on their own internal quality control procedures;
- (h) seeking to ensure co-ordination between the external auditor and the internal audit function; and
- (i) evaluating the risks to the quality and effectiveness of the financial reporting process, including the risk of the withdrawal of the Company's external auditor from the market.

2.21 To 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 to meet the external auditor at least once a year without management present to discuss the auditor's remit and any issues arising from the audit.

2.22 To 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.

2.23 To review the findings of the audit with the external auditor, including but not limited to:

- (a) any significant issues which arose during the audit;
- (b) key accounting and audit judgements;
- (c) the level of errors identified during the audit;
- (d) the effectiveness of the audit process;
- (e) the basis for the going concern assumption; and
- (f) compliance with relevant financial reporting standards and relevant financial and governance reporting requirements.

2.24 To discuss any difficulties, reservations or other matters arising from the external audit (in the absence of management where necessary).

2.25 To review any representation letter(s) requested by the external auditor before they are signed by management.

2.26 To review the management letter and management's response to the external auditor's findings and recommendations.

2.27 To develop, implement and keep under review a policy on the engagement of the external auditor to supply non-audit services by (including any non-audit services for which the use of the external auditor is pre-approved, from which the external auditor is excluded and for which the specific approval of the Committee is required), taking into account relevant ethical guidance on the matter, and report to the Board, identifying any matters on which it considers action or improvement is needed and recommending what steps should be taken.

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

2.28 To keep under review the adequacy and effectiveness of the group's internal financial controls and internal control and risk management systems.

2.29 To keep under review the policies and overall process for identifying and assessing business risks and managing their impact on the Company and the group.

2.30 To receive and review regular assurance reports from management, internal audit, external audit and others on matters related to risk and control and review the timeliness of, and reports on, the effectiveness of corrective action taken by management.

2.31 To consider and review areas of specific risk to the Company including but

not limited to professional liability, operational risks, financial risks and practices, legal and regulatory risks (including the assessment and monitoring of adherence to anti-bribery and corruption policies and procedures), information technology and continuity risks, risks regarding major change initiatives or new systems, risks pertaining to human resources, strategy, environment, intellectual property or items that will significantly impact the group's reputation.

2.32 To review and approve the statements to be made in the annual report about internal controls and risk management systems.

2.33 To advise the Board on the Company's overall risk appetite, tolerance and strategy.

2.34 To oversee and advise the Board on the current risk exposures of the Company and the group and future risk strategy.

2.35 To advise the Board on proposed strategic transactions including acquisitions or disposals, ensuring that a due diligence appraisal of the proposition is undertaken, focusing in particular on risk aspects and implications for the risk appetite and tolerance of the Company and the group, and taking independent external advice where appropriate and available.

2.36 To provide qualitative and quantitative advice to the remuneration committee on risk weightings to be applied to performance objectives incorporated in executive remuneration.

2.37 To consider and approve the remit of the risk management function and ensure it:

(a) has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards; and

(b) has adequate independence and is free from management and other restrictions.

2.38 To recommend to the Board the appointment and/or removal of the chief risk officer (**CRO**), review promptly all reports from the CRO, review and monitor management's responsiveness to the findings and recommendations of the CRO, and ensure that the CRO is given unfettered direct access to the chairman of the Board and to the Committee.

### **Whistleblowing, fraud, bribery and other compliance**

2.39 To review the adequacy and security of the group's arrangements for its employees and contractors to raise concerns, in confidence, about possible improprieties in financial reporting or other matters, with the aim of ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.

2.40 To review the group's policies and procedures for preventing and detecting fraud, its systems and controls for preventing bribery and money laundering, its code of corporate conduct/business ethics and its policies for ensuring that the group complies with relevant regulatory and legal requirements, receive reports and consider appropriate action.

## **Other**

2.41 To review other disclosures and documents as required by the Board.

### **3. COMPOSITION**

3.1 The Committee must have at least two members. Members of the Committee are appointed by the Board on the recommendation of the nomination committee in consultation with the chairman of the Committee.

3.2 In order to comply with the UK Corporate Governance Code, all members of the Committee should be independent non-executive directors. The chairman of the Board may not be a member of the Committee. If the Board decides that a member of the Committee is no longer independent, the Board will determine whether or not that member will cease to be a member of the Committee.

3.3 At least one member of the Committee must have been determined by the Board to have recent and relevant financial experience, ideally with a professional qualification from a professional accounting body.

3.4 Only members of the Committee have the right to attend Committee meetings, but the Committee may invite others to attend all or part of any meeting if it thinks it is appropriate or necessary. The external auditor and the chief financial officer must be invited to attend meetings of the Committee on a regular basis.

3.5 Appointments to the Committee are for a period of up to three years, extendable for two further three-year periods, provided the director still meets the criteria for membership of the Committee.

3.6 The Board appoints the chairman of the Committee, who, in order to comply with the UK Corporate Governance Code, should be an independent non-executive director. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present may elect one of their number to chair the meeting.

### **4. QUORUM**

4.1 The quorum necessary for the transaction of business is two members.

4.2 A duly convened meeting of the Committee at which a quorum is present is competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

### **5. MEETING ADMINISTRATION**

5.1 The Committee must meet as often as it deems necessary but in any case at least three times a year, at appropriate times in the financial reporting and audit cycle and as otherwise required, at such times and places determined by the Committee chairman. The Committee must approve the annual calendar of its meetings. Additional meetings may be called by the Committee chairman. The Committee may hold meetings by telephone or using any other method of electronic communication, and may take decisions without a meeting by unanimous written consent, when deemed necessary or desirable by the chairman.

5.2 Meetings of the Committee are called by the secretary of the Committee at the request of any of its members or at the request of the external or internal auditor.

5.3 Unless otherwise agreed by all Committee members, notice of each meeting confirming the venue, time and date (and dial-in details if required) of the meeting must be sent, with an agenda of the items to be discussed and any supporting papers, to each member of the Committee, any other person required to attend the meeting and all other non-executive directors, as soon as practicable, and in any event no later than five working days before the date of the meeting.

5.4 Outside the formal meeting programme, the Committee chairman must maintain a dialogue with key individuals involved in the Company's governance, including the Board chairman, the chief executive officer, the finance director, the external audit lead partner and the head of internal audit.

## **6. SECRETARY**

6.1 The Company secretary or such person as the Company secretary nominates acts as the secretary of the Committee.

6.2 The secretary must ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

6.3 The secretary must minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.

6.4 Draft minutes of Committee meetings must be sent promptly to all members of the Committee. Once approved, minutes must be sent to all members of the Board, unless the chairman of the Committee thinks it is inappropriate to do so.

## **7. SELF-EVALUATION**

The Committee must review its own performance, composition and terms of reference at least once a year and recommend to the Board any changes it considers necessary or desirable.

## **8. REPORTING RESPONSIBILITIES**

8.1 After each Committee meeting, the chairman must report formally to the Board on the Committee's proceedings and on how it has discharged its duties and responsibilities.

8.2 This report must include:

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

8.3 The Committee may make such recommendations to the Board it deems appropriate on any area within its remit where action or improvement is necessary or desirable.

8.4 The Committee chairman must attend the Company's annual general meeting

and respond to any shareholder questions on matters within the Committee's area of responsibility, as directed by the chairman of the annual general meeting.

8.5 The Committee must compile a report to shareholders on its activities to be included in the Company's annual report. The report must explain:

- (a) the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
- (b) how the Committee has addressed the effectiveness of the external audit process;
- (c) the approach taken to the appointment or reappointment of the external auditor
- (d) the length of tenure of the current external auditor and when a tender was last conducted; and
- (e) if the external auditor provides non-audit services, how auditor objectivity and independence are safeguarded.

8.6 In compiling the reports referred to in 8.1 and 8.5, the Committee must exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but must 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.

## **9. OTHER MATTERS**

The Committee must:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required on all Committee matters;
- (b) be given appropriate and timely training, in the form of an induction programme for new members and on an ongoing basis for all members. The Company secretary will keep the Committee informed of relevant guidance as necessary;
- (c) give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code, the requirements of the Financial Conduct Authority's Listing Rules, Prospectus Rules and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- (d) be responsible for co-ordination of the external and the internal auditor;
- (e) oversee any investigation of activities which are within its terms of reference; and
- (f) work and liaise as necessary with all other Board committees.



## **10. AUTHORITY**

The Board authorises the Committee to:

- (a) undertake any activity within its terms of reference;
- (b) seek any information from any group employee or contractor that it requires to perform its duties;
- (c) obtain internal or external legal or other professional advice on any matter within its terms of reference at the Company's expense, and to invite persons giving such advice to attend Committee meetings;
- (d) call any group employee or contractor to be questioned at a Committee meeting, as and when required;
- (e) publish in the Company's annual report details of any issues that have not been resolved between the Committee and the Board; and
- (f) delegate any of its powers to one or more of its members or the secretary.