

NAAFI AUDIT COMMITTEE - TERMS OF REFERENCE

1. Constitution

- 1.1 The Audit Committee is a Committee of the Board of Directors, authorised by the Board to assist it in fulfilling its responsibilities in relation to financial and related organisational corporate governance in accordance with The Combined Code.
- 1.2 It may seek outside legal or independent professional advice and request such advisors to attend meetings if necessary. The Committee, on behalf of the NAAFI Board, may investigate any activity within its terms of reference and seek any information it may require from the company's staff to achieve this.

2. Membership

- 2.1 The Committee will be appointed by the Board on the recommendation of the Nominations Committee in consultation with the Audit Committee Chair from amongst the non-executive directors of the company and will consist of not less than three members. The quorum for meetings will be two members.
- 2.2 The Chair of the Committee will be appointed by the Board. When the Chair of the Committee is absent at any meeting, the remaining members of the Committee will elect one of their number to chair the meeting.
- 2.3 Appointments to the Committee will be for an initial period of three years and members are eligible for re-appointment for two further three year periods in accordance with the Code.
- 2.4 The Company Secretary will serve as Secretary for the Committee or appoint a nominee to act as Secretary in his stead.

3. Meetings

- 3.1 Meetings will normally be held three times a year, with additional meetings as necessary.
- 3.2 Only members of the Committee have the right to attend meetings. Other individuals from both inside and outside the company may be invited to attend meetings as and when appropriate. The Chair of the NAAFI Board of Management, the Chief Executive, the Finance Director, the Head of Risk Management and the external auditors will normally attend meetings. However, at least once a year the Committee will meet with each of the external auditors and the Head of Risk Management without executive Board members or other Management present. The Head of Risk Management and the external auditors may also request access to the Committee without executive Board members or other Management present at any time.
- 3.3 Members must declare any conflicts of interest of which they become aware and if the Chair of the Committee determines that it is material, then the Chair has the power to exclude that Committee member from discussions on that issue.

4. Authority

The Committee is authorised by the Board to:-

- 4.1 Investigate any activity within its terms of reference.
- 4.2 Seek any information it requires from any employee, and all employees are directed to co-operate with any request made by the Committee. They may call any employees to be questioned at a meeting of the Committee as and when required.

- 4.3 Obtain outside legal advice, or other independent professional advice, and attendance of advisors with relevant experience and expertise wherever necessary.

5. Notice of Meetings

- 5.1 Committee meetings will be summoned by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditors if they consider it necessary.
- 5.2 Notice of each meeting, confirming the date, time and venue of the meeting, the agenda to be discussed and any supporting papers, will be forwarded to each member of the Committee and any other person who will be attending the meeting.

6. Annual General Meeting of Council

The Chair of the Committee will attend as necessary the Annual General Meeting and be prepared to respond to any questions that Council Members may have concerning the activities of the Committee.

7. Duties

7.1 Financial Reporting

- 7.1.1 The Committee will ensure the integrity of the financial statements of the company, including its annual report and any other formal external communication that relates to its financial performance. This includes appraising any financial reporting issues and judgments that have been made.
- 7.1.2 In reviewing financial statements before submission to the Board, the Committee will focus on:
 - 7.1.2.1 Any changes in accounting policy and practices on both a year by year basis and across the business as a whole in order to ensure consistency.
 - 7.1.2.2 The going concern assumption
 - 7.1.2.3 The methods used to account for unusual or significant transactions wherever different approaches are possible, and reviewing any significant adjustments resulting from the audit.
 - 7.1.2.4 Verifying whether the company has followed the appropriate accounting standards, taking into account the views of the external auditors and reviewing whether they have met the necessary legal requirements.
 - 7.1.2.5 Ensuring that there is clarity of disclosure in the financial reports of the company and that the context within which statements are made is clear.
 - 7.1.2.6 Reviewing all material information also included within the financial reports, including the corporate governance report.

7.2 Internal Controls and Risk Management system

- 7.2.1 The Committee will regularly review the company's approach to internal controls and risk management in the context of the business, with the external auditors and Head of Risk Management.
- 7.2.2 The Committee will review the company's statement on internal controls systems and risk management prior to endorsement by the Board and inclusion in the Annual Report.
- 7.2.3 The Committee will satisfy itself that all employees have an understanding of their role and responsibility to mitigate risk and support internal control.
- 7.2.4 The Committee will satisfy itself that Treasury matters are properly controlled.
- 7.2.5 The findings of internal investigations and Management's response will be considered.
- 7.2.6 The security of computer systems and applications, and the contingency plans in the event of a systems breakdown will be reviewed.

7.3 Whistle Blowing

The Committee will review the procedures put in place by the company to enable employees to raise their concerns, in confidence, about any possible wrong doing in relation to financial reporting or other matters.

7.4 Internal Audit

The Committee will

- 7.4.1 Provide an open avenue of communications between internal auditors, external auditors and the Board of Directors.
- 7.4.2 Review the appointment, replacement or dismissal of the Head of Risk Management.
- 7.4.3 Consider the independence of the internal auditors.
- 7.4.4 Consider the scope of work and audit plans of the internal auditors and extent of any outsourcing.
- 7.4.5 Review with the Head of Risk Management and the external auditors the co-ordination of audit effort to ensure completeness of coverage, avoid duplication of effort and promote the effective use of audit resources.
- 7.4.6 Consider and review with Management and the Head of Risk Management
 - 7.4.6.1 Significant internal audit findings during the year and management's responses thereto
 - 7.4.6.2 Any difficulties encountered in the course of the audits, including any restrictions on the scope of their work or access to required information.
 - 7.4.6.3 Any changes required in the scope of the audit plan
 - 7.4.6.4 The management audit department budget and staffing
 - 7.4.6.5 Whether the internal audit function has an appropriate standing within the company.

7.5 External Audit

The Committee will:

- 7.5.1 Consider and make recommendations to the Board, concerning the appointment of the external auditors, their re-appointment, the engagement terms, and the audit fee.
 - 7.5.2 Oversee the selection process for new auditors and should the auditors resign they will investigate the reasons behind this and decide whether any action is required.
 - 7.5.3 Oversee the relationship with the external auditors in order to assess annually their independence and objectivity, taking into account the regulatory requirements regarding relationships with a company's auditors.
 - 7.5.4 Develop and implement policy regarding the engagement of the external auditor to supply non audit services, reporting to the Board on any areas that it feels needs changing.
 - 7.5.5 Monitor and implement company policy on the employment of previous company auditors.
 - 7.5.6 Assess the qualifications, expertise and resources of the auditors, including reviewing the auditors report on their own internal quality procedures.
 - 7.5.7 Ensure that discussions are held with the external auditors before the audit commences covering the nature and scope of the audit.
 - 7.5.8 Review any representation letters that the external auditors may request before they are signed by Management and also discuss the external auditors' management letter and Management's response.
- 7.6 The Committee may consider other issues, as specified by the Board, and discharge any other duties that may arise in accordance with codes of best practice.
 - 7.7 Due consideration must be given to UKGAAP, International Accounting Standards and regulations and provisions of The Combined Code.
 - 7.8 The Committee will review legal and regulatory matters that might have a material impact on the reputation of the company or on its financial statements, related company compliance policies and reports received from regulators.
 - 7.9 The Audit Committee Chairman is authorised to sanction expenditure by the Company in engaging the Company's Auditors in non-audit activities. Such authority is limited to the sum of £20,000, excluding VAT, on each and every occasion.

8. Reporting Procedures

- 8.1 The Secretary will minute the proceedings of each meeting of the Committee and circulate them to all members of the Committee, and then to the Board once approved. The Chair will then report formally to the Board on the proceedings of the Committee.
- 8.2 Membership of the Committee and attendance will be noted in the annual Directors' Report along with a report on its activities.
- 8.3 The Committee will make whatever recommendations to the Board it deems appropriate on any area within its terms of reference where it feels that change or improvement is necessary.

8.4 The Committee will compile a report to stakeholders on its activities that will be included in the company's Annual Report.

9. Committee Resources

The Committee will be provided with sufficient resources in order to carry out its work effectively. This includes access to the Company Secretary for advice and appropriate ongoing training for all members.

10. Committee Performance

At least once a year the Committee will review its own performance, constitution and terms of reference to ensure that it is operating as effectively as possible. Any necessary changes will be recommended to the Board for approval.

11. Annual calendar of work

The Committee will carry out its programme of work in accordance with the calendar attached.

OUTLINE ANNUAL PROGRAMME FOR AUDIT COMMITTEE MEETINGS

The will be three programmed Audit Committees each year in 2012 they will take place in March, July and November. The main items for each meeting are indicated below:

March

- Finance Report.
- Dates of Future Meetings
- Review of Strategic Risk Register (included in Risk Management Report).
- PwC Audit Report – follow-up actions
- Risk Management Report.
- Review of Audit Charter
- Annual Business Continuity Report

May (no meeting)

The following papers will be circulated in May by the Head of Risk Management:

- Annual Fraud and Internal Controls report
- Risk Management Report

July

- Finance Report and Annual report & Accounts.
- PwC Year-end Audit Report
- Risk Management Report.
- Review and update the Committee's terms of reference and annual programme
- Non-executive Director Committee members to meet separately with PwC without Executive Board members or Management present.

November

- PwC Audit Report – follow-up actions
- Review of Strategic Risk Register (included in Risk Management Report)
- PwC Audit plan & Fee Proposal
- Finance Control Priorities
- Risk Management Report
- Review the Committee's effectiveness
- Non-executive Director Committee members to meet separately with Head of Risk Management without executive Board members or Management present

Other

5 yearly External Review of Internal Audit.