

# Audit Committee Terms of Reference

7 December 2023

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## **1. Membership**

- 1.1 The committee shall comprise at least three directors. The committee shall include at least one member of the risk committee. 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. The chair of the board shall not be a member of the committee.
- 1.2 Appointments to the committee are made by the board on the recommendation of the Nomination, Governance and Remuneration Committee in consultation with the chair of the committee and shall be for a period of up to three years, which may be extended for up to two additional three-year periods, provided the member still meets the criteria for membership of the committee.
- 1.3 Only members of the committee have the right to attend committee meetings. However, other individuals such as the Chair, CEO, CFO, CRO and Group Head of Internal Audit, and external advisers or other individuals may be invited to attend for all or part of any meeting, as and when appropriate.
- 1.4 The board shall appoint the committee chair. In the absence of the committee chair, the remaining members present shall elect one of themselves to chair the meeting from those who would qualify under these terms of reference to be appointed to that position by the board.

## **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.

## **3. Quorum**

- 3.1. The quorum necessary for the transaction of business shall be three.

## **4. Frequency of meetings**

- 4.1. The committee shall meet at least three times a year and otherwise as required.

- 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 board chair, the CEO, the CFO, the external audit lead partner and the Group Head of internal Audit.

## **5. Notice of meetings**

- 5.1. Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members or at the request of the external audit lead partner or Group Head of Internal Audit 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 secretary 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 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, it would be inappropriate to do so.

## **7. Conflicts of Interest**

- 7.1. It is each member's responsibility to disclose any interests that could constitute an actual or perceived conflict of interest and, in such circumstances, they may absent themselves from voting. If the Chair decides in consultation with the other members (if necessary) that a member has an actual or perceived conflict of interest, the Chair may determine that the member absent themselves from a particular committee business and/or that a recommendation should be made to the board that such member be removed as a member. Any decision of the Chair (and/or of the board) shall be final and binding.

## **8. Engagement with Owners**

- 8.1. The committee chair should attend the Annual Owners Meeting to answer any questions on the committee's activities.

## **9. Duties**

- 9.1. The committee should carry out the duties below for the PIDG Ltd and the Group as a whole (excluding the PIDG Trust), as appropriate.
- 9.2. Financial reporting
  - 9.2.1. The committee shall monitor the integrity of the financial statements of the PIDG Group, including its Annual Report, interim management statements and any other formal external statements relating to its financial performance. It will 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.

- 9.2.2. In particular, the committee shall review and challenge where necessary:
- a) the application of significant accounting policies and any changes to them;
  - b) the methods used to account for significant or unusual transactions where different approaches are possible;
  - c) whether the PIDG Group has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements; and
  - d) all material information presented with the financial statements, including (where relevant) the strategic report and the corporate governance statements relating to audit and risk management and internal controls.

9.2.3. The committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation.

9.2.4. Where the committee is not satisfied with any aspect of the proposed financial reporting by any entity within the PIDG Group, it shall report its views to the board of that entity and / or the PIDG Ltd board as appropriate.

9.2.5. Where there is no audit committee for a PIDG group entity, where required and proposed by the board, this committee will fulfil that function and report into both the entity board and PIDG Ltd board in respect of its deliberations and recommendations.

### 9.3. Impact Reporting

9.3.1. The committee shall monitor the integrity of the PIDG Group's sustainable development impact reporting including both quantitative and qualitative information to be provided to the board, PIDG Owners and other stakeholders. This includes information contained in quarterly reports, narrative in business plans and KPIs and PIDG's external reporting documents including the Annual Report, Annual Review, TCFD and IFRS S1 and S1 reports.

9.3.2. In particular, the committee shall review and challenge where necessary:

- a) the impact monitoring and evaluation, policies and processes and any changes to them;
- b) whether the PIDG Group has made appropriate estimates and judgements taking into account any external evaluator's views on the sustainable development impact reporting; and
- c) all material information provided with the sustainable development impact reports.

### 9.4. Narrative reporting

9.4.1. Where requested by the board, the committee should review the content of the Annual Report and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for PIDG donors and the PIDG Trust to assess the PIDG Group's position and performance, business model and strategy, and whether it informs the board's statement in the Annual Report on these matters.

## 9.5. Internal controls and risk management systems

The committee shall:

- 9.5.1. Keep under review the PIDG Group's internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems.
- 9.5.2. Monitor compliance with filings of the statutory accounts, tax returns and other statutory filings of PIDG Ltd.
- 9.5.3. To the extent relevant to external reporting, keep under review the PIDG Group's processes for identifying, managing, monitoring and reporting on the development impact of all its projects and for PIDG as a whole.
- 9.5.4. Review and approve the statements to be included in the Annual Report concerning internal control, risk management and the viability statement.

## 9.6. Compliance, whistleblowing and fraud

The committee shall:

- 9.6.1. Review the adequacy and security of the PIDG Group'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.
- 9.6.2. Review the PIDG Group's procedures for detecting fraud.
- 9.6.3. Review the PIDG Group's systems and controls for the prevention of bribery and receive reports on non-compliance.

## 9.7. Internal audit

The committee shall:

- 9.7.1. Approve the appointment or termination of appointment of the head of internal audit.
- 9.7.2. 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.
- 9.7.3. Review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out.
- 9.7.4. 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.
- 9.7.5. Ensure the internal auditor has direct access to the board chair and to the committee chair, providing independence from the executive and accountability to the committee.
- 9.7.6. Carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment.

- 9.7.7. Meet with the head of internal audit without the presence of management to discuss the effectiveness of the function.
- 9.7.8. Review and assess the annual internal audit work plan.
- 9.7.9. Receive a report on the results of the internal auditor's work.
- 9.7.10. Determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business.
- 9.7.11. Review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function.
- 9.7.12. 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.
- 9.7.13. Consider whether an independent, third party review of processes is appropriate.

#### 9.8. External audit

The committee shall:

- 9.8.1. Consider and make recommendations to the board in relation to the appointment, re-appointment and removal of the PIDG Group's external auditor.
- 9.8.2. Develop and oversee the selection procedure for the appointment of the external audit firm(s), ensuring that all tendering firms have access to all necessary information and individuals during the tendering process.
- 9.8.3. If the external auditors resign, investigate the issues leading to this and decide whether any action is required.
- 9.8.4. Advise the boards of PIDG companies in relation to the selection and appointment of external auditors.
- 9.8.5. Oversee the relationship with the external auditors. In this context the committee shall:
  - d) 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; and
  - e) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit.
- 9.8.6. Assess annually the external auditors' independence and objectivity taking into account relevant law, regulation, the ethical standard and other professional requirements and the PIDG Group's relationship with the external auditors as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services.
- 9.8.7. Satisfy itself that there are no relationships between the external auditors and the PIDG Group (other than in the ordinary course of business) which could adversely affect the external auditors' independence and objectivity.

- 9.8.8. Agree with the board a policy on the employment of former employees of the company's external auditors, taking into account the ethical standard and legal requirements, and monitor the application of this policy.
- 9.8.9. Monitor the external auditors' processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the ethical standards, including the guidance on the rotation of audit partner and staff.
- 9.8.10. Monitor the level of fees paid by the PIDG Group to the external auditors 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.
- 9.8.11. Assess annually the qualifications, expertise and resources, and independence of the external auditors and the effectiveness of the external audit process, which shall include a report from the external auditors on their own internal quality procedures.
- 9.8.12. Evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditors' communications with the committee.
- 9.8.13. Develop and recommend to the board the PIDG Group's formal policy on the provision of non-audit services by the external auditors, 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:
- a) threats to the independence and objectivity of the external auditors and any safeguards in place;
  - b) the nature of the non-audit services;
  - c) whether the external audit firm is the most suitable supplier of the non-audit service;
  - d) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - e) the criteria governing compensation.
- 9.8.14. Meet regularly with the external auditors (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 auditors without management being present, to discuss the auditors' remit and any issues arising from the audit.
- 9.8.15. Discuss with the external auditors 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.
- 9.8.16. Review the findings of the audit with the external auditors. This shall include but not be limited to, the following:
- a) a discussion of any major issues which arose during the audit;
  - b) the auditor's explanation of how the risks to audit quality were addressed;
  - c) key accounting and audit judgements;
  - d) the auditor's view of their interactions with senior management; and
  - e) levels of errors identified during the audit.
- 9.8.17. Review any representation letter(s) requested by the external auditors before they are signed by management.

- 9.8.18. Review the management letter and management's response to the external auditors' findings and recommendations.
- 9.8.19. Review the effectiveness of the audit process, including an assessment of the quality of the external audit, the handling of key judgements by the external auditors, and the external auditors' response to questions from the committee.

## **10. Reporting responsibilities**

- 10.1. The committee chair shall report to the board after each meeting on the nature and content of its discussion, recommendations and action to be taken.
- 10.2. The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed, and adequate time should be made available for board discussion when necessary.
- 10.3. The committee shall compile a report on its activities to be included in the company's annual report. The report should describe the work of the committee, including:
  - 10.3.1. the significant issues that the committee considered in relation to the financial statements and how these issues were addressed.
  - 10.3.2. 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.
  - 10.3.3. 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.
  - 10.3.4. In compiling the reports referred to in these terms of reference, 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 and the inputs to the board's viability statement.

## **11. Other matters**

The committee shall:

- 11.1. Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for advice and assistance as required.
- 11.2. Be provided by PIDG Ltd with appropriate funding to obtain advice and assistance from internal or external legal, accounting, or other advisors at PIDG Ltd's expense, without the prior approval of the board up to a maximum cost of £10,000.
- 11.3. 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.
- 11.4. Give due consideration to all relevant laws and regulations, the provisions of the UK Corporate Governance Code and associated guidance and any other applicable rules, as appropriate.

- 11.5. Be responsible for oversight of the coordination of the internal and external auditors.
- 11.6. Oversee any investigation of activities which are within its terms of reference.
- 11.7. 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.]
- 11.8. Ensure that a periodic evaluation of the committee's own performance is carried out.
- 11.9. At least annually, review the committee's terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

## **12. Authority**

The committee is authorised to:

- 12.1. Seek any information it requires from any employee of the company in order to perform its duties.
- 12.2. Call any employee to be questioned at a meeting of the committee as and when required.
- 12.3. Delegate any matter or matters to another committee or person(s) as it deems appropriate.
- 12.4. Publish in the PIDG Ltd's Annual Report details of any issues that cannot be resolved between the committee and the board.