

CAIRN HOMES PLC

**AUDIT AND RISK COMMITTEE
TERMS OF REFERENCE**

Approved by the Audit & Risk Committee on [18] November 2020

Cairn Homes plc (the "Company")

1. INTERPRETATION

1.1 In these terms of reference:

"Auditor"	means the external auditors of the Company
"Board"	means the board of directors of the Company
"Committee"	means the audit and risk committee of the Board

2. MEMBERSHIP

2.2 By a resolution dated 29 April 2015, the Board resolved, pursuant to the authority and power conferred upon the Board by Regulation 105 of Part I of Table A of the First Schedule to the Companies Act 1963 incorporated in the Company's articles of association, to establish the Committee. The Committee shall comprise at least three members.

2.3 Members of the Committee shall be appointed by the Board, on the recommendation of the nomination committee in consultation with the chairman of the Committee.

2.4 All members of the Committee shall be independent non-executive directors who are free from any relationships or circumstances which are likely to affect, or could appear to affect, the Committee member's judgment. At least one of the members must have had recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The chairman of the Board shall not be a member of the Committee.

2.5 Only members of the Committee have the right to attend Committee meetings. However, the Auditor Chief Financial Officer and members of the finance team may be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.

2.6 Each Committee member shall be appointed for a period of three years extendable by no more than two additional three-year periods so long as the relevant Committee member still meets the criteria for membership of the Committee.

2.7 The Board shall appoint the chairman of the Committee who shall be an independent non-executive director. In the absence of the Committee chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

2.8 The Board may from time to time remove members of the Committee.

2.9 The membership of the Committee shall be set out in the annual report of the Company.

3. PROCEEDINGS OF THE COMMITTEE

3.2 The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.

3.3 Outside of the formal meeting programme, the chairman of the Committee will maintain a dialogue with key individuals involved in the Company's governance, including the Board chairman, the chief executive, the Chief Financial Officer, the Auditor's lead partner and, if and when appropriate, the head of internal audit.

3.4 Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members or at the request of Auditor or the Company's internal auditor.

3.5 Unless agreed otherwise, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed together with any supporting documentation shall be forwarded

to each member of the Committee, all other non-executive directors and any other person required to attend, at least five days before the date of the meeting.

3.6 The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present may exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee. Where possible, any quorum should include a member with recent and relevant financial experience.

3.7 Meetings of the Committee may be held by conference telephone, video-conference or using similar communications equipment whereby all members participating in the meeting can hear each other.

3.8 Matters for decision by the Committee shall be decided by a majority of all the members.

4. **MINUTES**

4.2 The secretary of the Committee shall minute the proceedings and decisions of Committee meetings and record the names of those present and in attendance.

4.3 Following each meeting of the Committee, the secretary shall circulate, for comment, draft minutes to each member who was present at the meeting.

4.4 After approval and signing of the minutes by the chairman of the meeting, the secretary shall circulate copies of the minutes to all members of Committee and to all members of the Board unless it would be inappropriate to do so in the opinion of the chairman of the Committee.

5. **SECRETARY**

The company secretary (or his or her 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 the issues.

6. **ANNUAL GENERAL MEETING**

The chairman of the Committee should attend the Company's AGM to answer shareholder questions on the Committee's activities.

7. **SPECIFIC DUTIES**

The Committee shall perform the following duties for the Company:

7.2 **Financial reporting**

7.2.1 The Committee shall monitor the integrity of the financial statements of the Company, including its:

- (a) annual and half-yearly reports and accounts;
- (b) interim management statements; and
- (c) any other formal announcement relating to its financial performance,

reviewing all significant financial reporting issues and all judgements which they contain. The Committee shall also review and report to the Board on 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.

7.2.2 In particular, the Committee shall review and challenge where necessary:

- (a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/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 Auditor;
- (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- (e) all material information presented with the financial statements, such as the operating and financial review and the corporate governance statement (insofar as it relates to the audit and risk management).

7.2.3 Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, it shall report its views to the Board.

7.3 Risk appetite, tolerance and strategy

7.3.1 The Committee shall:

- (a) Consider, advise on and report on the Company's overall risk appetite and tolerance, and oversee the Company's strategic response to risk, in particular to the principal and emerging risks to its strategic objectives;
- (b) Advise the board on the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact; and
- (c) Advise the board on the risk aspects of proposed changes to strategy and strategic transactions, focussing in particular on implications for the risk appetite, tolerance and strategy of the company, and taking independent external advice where appropriate and available.

7.4 Narrative reporting

The Committee shall carry out the following duties to assist the board in fulfilling its reporting responsibilities in the Annual Report

- a. Where requested by the Board, the Committee should 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.
- b. Monitor and review the effectiveness of the company's risk management and internal control systems, the company's risk appetite and associated stress testing, the company's procedures to manage or mitigate principal risks and to identify emerging risks, to assist in the board's assessment of principal and emerging risks

7.5 Internal controls and risk management systems

The Committee shall:

- (a) keep under review the categorisation, monitoring and overall effectiveness of the Company's risk assessment and internal control processes;
- (b) regularly review and approve the parameters used in the measures referred to in 7.3(a) above and the methodology adopted;

7.6 Confidential reporting and fraud prevention

The Committee shall:

- (a) 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;
- (b) review the Company's procedures for detecting fraud; and
- (c) review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

7.7 Internal audit

The Committee shall:

- (a) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management systems
- (b) approve the appointment and removal of the head of the internal audit function;
- (c) 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 appropriate professional standards for internal auditors. The Committee shall also ensure the function has adequate standing and is free from management or other restrictions;
- (d) ensure the internal auditor has direct access to the Board chairman and to the chairman of the Committee and is accountable to the Committee;
- (e) review and assess the annual internal audit plan;
- (f) receive a report on the results of the internal auditor's work on a periodic basis;
- (g) review and monitor the management's responsiveness to the findings and recommendations of the internal audit function;
- (h) meet with the head of internal audit at least once a year without the presence of management;
- (i) monitor and review the effectiveness of the Company's internal audit function in the context of the Company's overall risk management system; and
- (j) where external auditors are being considered to undertake aspects of the internal audit function, consider the effect this may have on the effectiveness of the Company's overall arrangements for internal control and investor perceptions.

7.8 External audit

7.8.1 The Committee shall:

- (a) consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment or removal of the Auditor, and if the Board does not accept the Committee's recommendation, the Committee shall prepare a statement explaining the Committee's recommendation which shall be included in the annual report and in any papers recommending appointment or re-appointment together with the Board's reasons for taking a different position;

- (b) ensure that at least once every ten 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 those of 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;
- (c) if the Auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (d) oversee the relationship with the Auditor including (but not limited to):
 - (i) recommendations on their remuneration, whether fees for audit or non-audit services and ensuring that the level of fees is appropriate to enable an adequate audit to be conducted;
 - (ii) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - (iii) assessing annually their independence and objectivity taking into account relevant UK and Irish professional and regulatory requirements and the relationship with the Auditor as a whole, including the provision of any non-audit services;
 - (iv) 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);
 - (v) agreeing with the Board a policy on the employment of former employees of the Auditor, then monitoring the implementation of this policy;
 - (vi) monitoring the Auditor's compliance with relevant ethical 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;
 - (vii) assessing annually the qualifications, expertise and resources of the Auditor and the effectiveness of the audit process, which shall include a report from the Auditor on their own internal quality procedures;
 - (viii) seeking to ensure co-ordination with the activities of the internal audit function; and
 - (ix) 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 in that evaluation,
- (e) meet regularly with the Auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the Auditor at least once a year, without executive management being present, to discuss their remit and any issues arising from the audit;
- (f) review and approve the annual external audit plan and ensure that it is consistent with the scope of the audit engagement; and
- (g) review the findings of the audit with the Auditor. This shall include but not be limited to, the following:
 - (i) a discussion of any major issues which arose during the audit;

- (ii) any accounting and audit judgements;
- (iii) levels of errors identified during the audit; and
- (iv) review the effectiveness of the audit process.

7.8.2 The Committee shall also:

- (a) review any representation letter(s) requested by the Auditor before they are signed by the executive management;
- (b) review the executive management letter and executive management's response to the Auditor's findings and recommendations; and
- (c) develop and implement a policy on the supply of non-audit services by the Auditor, taking into account any relevant ethical guidance on the matter, including ensuring that the provision of such services does not impair the Auditor's independence or objectivity, taking into account the criteria which govern the compensation of the individuals performing the external audit.

7.9 Reporting responsibilities

7.9.1 The Committee chairman shall update the Board on its proceedings after each meeting on all relevant matters within its duties and responsibilities and shall also formally report on how it has discharged its responsibilities. Such update shall include:

- (a) the significant issues that it considered in relation to the financial statements (required under paragraph 7.2.1) and how these were addressed;
- (b) its assessment of the effectiveness of the external audit process (required under paragraph 7.8.1(d)(viii)) and its recommendation on the appointment or reappointment of the Auditor; and
- (c) any other issues on which the Board has requested the Committee's opinion.

7.9.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

7.9.3 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 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 Auditor; if an Auditor provides non-audit services, an explanation of how the Auditor's objectivity and independence are safeguarded; the approach taken to the reappointment of the Auditor and information on the length of tenure of the current audit firm and when a tender was last conducted; and all other information requirements set out in the UK Corporate Governance Code. The annual report shall also list the names of all members of the Committee, the number of Committee meetings and attendance by each member.

7.9.4 In providing updates to the Board (as referred to in 7.9.1 and 7.9.3 above), 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.

7.10 **Other matters**

The Committee shall:

- (a) have access to sufficient resources in order to carry out its duties, including access to the Company secretariat for assistance as required;
- (b) 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;
- (c) give due consideration to laws and regulations and the provisions of the UK Corporate Governance Code and the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules as appropriate;
- (d) be responsible for co-ordination of the internal auditor and the Auditor;
- (e) oversee any investigation of activities which are within its terms of reference;
- (f) arrange for periodic reviews of its own performance and, at least annually, 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;
- (g) work and liaise as necessary with all other Board committees;
- (h) be able to meet separately with any of the executive management without any other members of the executive management being present; and
- (i) make available its terms of reference, including its role and the authority delegated to it by the Board.

8. **AUTHORITY**

The Committee is authorised to:

- (a) seek any information it requires (including from any employee or service provider of the Company) in order to perform its duties;
 - (b) obtain outside legal or other professional advice (including the advice of independent risk and assurance consultants) on any matters within its terms of reference;
 - (c) commission any reports or surveys, which it deems necessary, to help it fulfil its obligations;
 - (d) secure the attendance of external advisors at its meetings (if it considers it necessary);
 - (e) call any employee or service provider of the Company to be questioned at a meeting of the Committee as and when required;
 - (f) publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board;
 - (g) do all other matters as it believes appropriate in respect of the conduct of its duties, including, without limitation, the matters referred to herein; and
 - (h) delegate any of its powers to one or more of its members or the secretary,
- all at the Company's expense.