

Punch Taverns Plc

Audit and Risk Committee Terms of Reference

January 2013

1 Role of the Committee

1.1 The principle roles of the Committee are:

- (i) to monitor the integrity of the Company's financial statements;
- (ii) to review and make recommendations to the Board on internal controls, regulation and compliance;
- (iii) to review and make recommendations to the Board on the Company's risk management framework; and
- (iv) to review the internal and external audit processes.

2 Membership and Secretary

- 2.1 **Composition:** The Committee shall consist of at least three members, each of whom shall be non-executive directors of the Company. The members of the Committee and the chairman of the Committee shall be appointed from time to time by a resolution of the Board. The chairman of the Board shall not be eligible to be appointed as a member of or as chairman of the Committee.
- 2.2 **Financial experience:** At least one member of the Committee shall have recent and relevant financial experience. The remaining members should have experience of dealing with financial and accounting matters.
- 2.3 **Chairman:** The Board shall appoint a Committee Chairman who should 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 their numbers to chair the meeting.
- 2.4 **Alternate:** If a regular member is unable to act due to absence, illness or any other cause, the chairman of the Committee may appoint another non-executive director of the Company to serve as an alternate member.
- 2.5 **Secretary:** The Company Secretary, or his nominee, shall be the secretary of the Committee

3 Meetings

- 3.1 **Frequency of meetings:** The Committee Chairman shall determine the frequency and timing of the meetings. As a minimum meetings shall be held at least three times a year. The external auditors, the Company Secretary or the Finance Director may request that the chairman call a meeting if they consider that one is necessary.
- 3.2 **Quorum:** The quorum necessary for the transaction of the business of the Committee shall be any two members of the Committee. 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.
- 3.3 **Attendance:** No one other than the Committee's Chairman and members is entitled to be present at a meeting of the Committee. Non-members may attend on the invitation of the Committee Chairman.

The Finance Director, the Company Secretary and representative(s) of the external auditors of the Company shall attend part or all of the meetings at the invitation of the

Committee Chairman. At the discretion of the Committee, others may be invited to attend part or all of each meeting.

The external auditors, the Company Secretary and the Finance Director may have access to the Chairman or any other member of the Committee as required in relation to any matter falling within the remit of the Committee.

The Committee shall meet with the external auditors at least annually, or as deemed appropriate, without any executive member of the Board in attendance. The Company Secretary shall meet with the chairman of the Committee annually without any executive member of the Board or management in attendance.

3.4 **Notice:** Meetings shall be summoned by the secretary of the Committee at the request of the Chairman of the Committee by notice to each member of the Committee and any other person required to attend confirming the venue, time and date, and enclosing an agenda of items to be discussed. The Company Secretary should ensure that the Committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

3.5 **Duration:** Sufficient time should be allowed to enable the Committee to undertake as full a discussion as may be required at its meetings.

3.6 **Minutes:** The members of the Committee shall cause minutes to be made of all resolutions and proceedings of the Committee including the names of all those present and in attendance at meetings of the Committee.

Minutes of the Committee meetings shall be circulated by the secretary to all members of the Committee and shall be made available, if requested, to other members of the Board.

4 Authority

4.1 **Authority:** The Committee will not be responsible for supervising the performance of executives (nor permitted to do so) and will not be required to become involved in day-to-day operations, management functions or decision-making.

4.2 **Investigation:** The Committee is authorised by the Board to investigate any activity within its terms of reference. Its work is advisory to the Board. It is authorised to seek any information it requires from any employee of the Company or any subsidiary of the Company and all such employees are required to co-operate with any request made by the Committee.

4.3 **Advice:** The Committee is authorised by the Board, at the Company's expense, to obtain outside legal or other independent professional advice if it considers this necessary and to secure the attendance of external professional advisers at its meetings if it considers this necessary.

4.4 **Information:** The Committee is authorised to have unrestricted access to all of the books and records of the Company and to seek any information it requires from any employee. All employees are directed to co-operate with any requests made by the Committee Chairman or the Company Secretary, acting on instruction from the Committee. The Committee will notify the Chief Executive if it has exercised this authority, setting out the information required and the circumstances underlying the request.

5 Duties and responsibilities

The duties of the Committee shall be:

5.1 Financial statements

a) to monitor and review the integrity of the annual and interim financial statements, the accompanying reports to shareholders, the preliminary announcement of results and any other announcement regarding the Company's results or other financial information to be made public, before submission to the Board, focusing particularly on:

- (i) any changes in accounting policies and practices;
- (ii) major judgmental areas;
- (iii) significant adjustments to the financial statements resulting from the audit;
- (iv) the going concern assumption;
- (v) compliance with accounting standards;
- (vi) compliance with regulatory and legal requirements;
- (vii) the clarity and completeness of disclosures;

5.2 Internal controls, regulation and compliance

- (i) to undertake on-going monitoring and carry out an annual review of the effectiveness of the internal control environment
- (ii) to review any statement on internal control systems prior to endorsement by the Board
- (iii) to review management's and the internal auditor's reports on the effectiveness of systems for internal financial control
- (iv) to review the controls over significant trading and credit risks (such as derivatives)
- (v) to review the Company's procedures for handling allegations from whistleblowers

5.3 Risk management framework

- (i) to review the policies and process for identifying and assessing business risks and the management of those risks by the Company;
- (ii) to carry out an annual review of the Company's risk policy and the risk management framework
- (iii) consider the adequacy of the risk information and reporting provided by the Company to the Board of Directors

The Committee is **not** responsible for the management of the risks themselves which is a matter reserved for the Board of Directors.

5.4 External audit processes

- (i) To consider the appointment of the external auditor(s), the audit fee, and any questions of resignation or removal of the auditor(s) along with the risk of their withdrawal from the market
- (ii) To keep under review the cost effectiveness of the audit and the independence of the auditors, and are encouraged to review the auditors' annual transparency report
- (iii) To review the nature and extent of non-audit services taking into account relevant guidance regarding the provision of non-audit services by the external auditors and seeking to balance the maintenance of objectivity and value for money (where a substantial volume of such services are supplied).

- (iv) To discuss with the external auditor(s) before the audit commences the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved
- (v) To meet regularly with the external auditors in order to discuss any findings, problems and reservations arising from the audit, and any matters the auditor(s) may wish to discuss (in the absence, where requested by the Committee, of executive members of the Board and any other person who is not a member of the Committee)
- (vi) To review the external auditors' engagement letter, representation letter, management letter and management's response to the management letter
- (vii) To carry out an annual review of the role and effectiveness of the external audit, considering their qualification, expertise and resources

5.5 Internal Audit Process

- (i) To review the internal audit plan and ensure that the internal audit function is adequately resourced, has appropriate standing within the Company and co-ordinates with the external auditors;
- (ii) To consider the findings of all internal audit reports and any special investigations and assess management's response and their actions;
- (iii) To carry out an annual review of the role and effectiveness of the internal audit function.
- (iv) To review the Internal Audit terms of reference on an annual basis and recommend any changes to the Board.
- (v) To ensure that there is an open communication between the internal auditors and the Board of Directors
- (vi) To meet annually with the Company Secretary without the presence of management

5.6 Other

- (i) The chairman of the Committee shall attend the annual general meeting of the Company to answer shareholders' questions relating to the activities of the Committee.
- (ii) The Committee shall review its own effectiveness on an annual basis as part of the Annual Review of Board Effectiveness.
- (iii) The Committee shall review its terms of reference on an annual basis and recommend any changes to the Board.
- (iv) The Committee shall ensure that the Company Secretary has an informal reporting line to the Chairman of the Audit Committee.
- (v) The Committee shall consider other relevant matters as defined by the Board