

1. TERMS OF REFERENCE: THE AUDIT COMMITTEE – March 2011

Reviewed, amended and approved March 2011

At all times the terms of reference of the Audit Committee shall be construed and observed with regard to the size and complexity of Strategic Thought Group PLC (the “Company”) and its subsidiaries and the extent to which the terms of reference can be justified on the grounds of cost effectiveness.

1.1 *The Audit Committee*

The Audit Committee:

- (a) is a committee of the board of directors (the “Board”) of the Company and shall make recommendations to the Board which retains the right of final decision;
- (b) is composed of the non-executive directors with a quorum of two;
- (c) has the primary responsibility of reviewing the financial statements and the accounting principles and practice underlying them, liaising with the external and internal auditors and reviewing the effectiveness of internal controls; and
- (d) will meet at least twice a year but sufficiently frequently and for long enough to perform its duties effectively. Meetings of the Audit Committee may be summoned at the request of the external or internal auditors if they consider it necessary.

1.2 *Membership*

- (a) There should be a minimum of two members.
- (b) The quorum necessary for the transaction of business shall be two members.
- (c) Members shall be appointed by the Board, on the recommendation of the Remuneration and Nominations Committee, in consultation with the Chairman of the Audit Committee.
- (d) Membership should be confined to non-executive directors, and at least one of whom shall have recent and relevant financial experience.
- (e) The majority of members, apart from directors’ fees and shareholdings, should be independent of management and free from any involvement which might significantly interfere with their ability to judge matters independently.
- (f) The Company Secretary shall be the committee secretary and proper minutes shall be kept and circulated, once agreed, to all members of the Board. The Secretary shall ascertain at the beginning of each meeting the existence of any conflicts of interest and minute them accordingly.
- (g) The external auditor, Chief Executive Officer and the Chief Financial Officer and/or the Financial Controller should normally attend without being members.

- (h) Only members of the Audit Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, other executive directors (if any), the heads of risk, compliance and internal audit (if any) and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate.
- (i) Appointments to the Committee shall be for a period of up to three years, which may be extended for two further three year periods, provided the director remains independent.

1.3 *Chairman*

- (a) The members of the Audit Committee will elect a Chairman from amongst themselves and he will be responsible for:
 - (i) preparing the agenda;
 - (ii) the timely distribution of the agenda and any supporting papers no less than two clear working days before the date of the meeting;
 - (iii) reporting to the board on issues and decisions made; and
 - (iv) answering questions about the Audit Committee's work at the annual general meeting.
- (b) 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.
- (c) As at the date of establishment of the Audit Committee, the Chairman shall be the non-executive director who is not the Chairman of the Board.

1.4 *Duties*

(a) *External reporting*

The Audit Committee shall review and challenge when necessary:

- (i) interim and final financial statements before submission to the board, preliminary results' announcements and any other formal announcement relating to financial performance;
- (ii) the annual report in its entirety;
- (iii) summary financial reports;
- (iv) circulars issued in respect of takeovers, defences against takeovers and other major non-routine transactions;
- (v) press statements and advertisements relating to financial matters prior to their issue;

- (vi) 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;
 - (vii) the consistency of, and any changes to accounting policies both on a year on year basis and across the company/group;
 - (viii) the methods used to account for significant or unusual transactions where different approaches are possible
 - (ix) the methods used to account for material provisions and estimates in connection with the preparation of the financial statements; and
 - (x) the annual financial statements of the pension funds (if any) where not reviewed by the Board as a whole
- (b) *External auditors*
- (i) Appointment and any questions of resignation or dismissal.
 - (ii) Review and approve the proposed audit fee and any non-audit fees or remuneration.
 - (iii) Prior to the audit, discuss the nature, scope and timing with the external auditors.
 - (iv) Discuss any problems and reservations with the audits.
 - (v) Discuss the meaning and significance of audited figures and any notes thereto.
 - (vi) Review the external auditors' evaluation of the company's internal controls, the management letter and the management' response.
 - (vii) Review any factors that might impair, or be perceived to impair, the auditors' independence and objectivity, taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non audit services. Seek information from the auditors on an annual basis about their policies and processes for maintaining independence, including requirements regarding the rotation of audit partners and staff
 - (viii) Review the directors' statement on internal controls.
 - (ix) Arbitrate in disputes between the auditors and management.
 - (x) Consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor. The Committee shall oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required.

- (xi) Satisfy 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).
 - (xii) Agree with the Board a policy on the employment of former employees of the company's auditor, then monitor the implementation of this policy.
 - (xiii) Monitor 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.
 - (xiv) Assessing annually their qualifications, expertise and resources and the effectiveness of the audit process which shall include a report from the external auditor on their own internal quality procedures.
 - (xv) Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit.
 - (xvi) Review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement.
 - (xvii) Review the findings of the audit with the external auditor, including but not limited to:
 - a discussion of any major issues which arose during the audit;
 - any accounting and audit judgements; and
 - levels of errors identified during the audit.
 - (xviii) Review the overall effectiveness of the audit.
 - (xix) Review and approve any representation letter(s) requested by the external auditor before they are signed by management.
 - (xx) Review the management letter and management's response to the auditor's findings and recommendations.
 - (xxi) Develop and implement a policy on the supply of non audit services by the external auditor, taking into account any relevant ethical guidance on the matter.
 - (xxii) Review and approve the annual audit engagement letter
- (c) *Internal controls, risk management systems and auditors*
- (i) Review the organisation, remit, lines of reporting and the independence of the internal audit function and risk management systems.

- (ii) Review and approve the statements to be included in the Annual Report concerning internal controls and risk management.
 - (iii) Review objectives and plans and assure adequacy of resources and access to information.
 - (iv) Discuss any problems in carrying out audits, major findings and adequacy of controls.
 - (v) Ascertain actions taken on recommendations.
 - (vi) Discuss the relationship between external and internal auditors and co-ordination of their work.
 - (vii) Monitor and review the effectiveness of the company's internal audit function in the context of the company's overall risk management system and, if the company does not have an internal audit function, consider annually whether there should be one, discuss the matter with the external auditors and make recommendations to the Board accordingly.
 - (viii) Approve the appointment and removal of the head of the internal audit function.
 - (ix) Review and assess the annual internal audit plan.
 - (x) Review promptly all reports on the company from the internal auditors.
 - (xi) Meet the head of internal audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the head of internal audit shall be given the right of direct access to the Chairman of the Board and to the Committee.
- (d) *Other duties*
- (i) Enquire into illegal, questionable or unethical activities and ensure that the company has a robust Bribery Policy in place covering gifts, inducements and facilitation payments.
 - (ii) Adherence of officials to the corporate code of conduct.
 - (iii) Review any significant transactions outside the company's normal business.
 - (iv) Initiate special projects or investigations on any matter within its term of reference.
 - (v) Review the efforts of the company to comply with social and environmental obligations.
 - (vi) Ensure that the board, and especially the non-executive directors, receive timely relevant and reliable information, tailored to assist them with monitoring the business and taking important decisions.

1.5 *Annual General Meeting*

- (a) The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities.

1.6 *Whistleblowing*

- (a) The Committee shall review the Company's arrangements for its employees 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.

1.7 *Reporting responsibilities*

- (a) The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- (b) The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- (c) The Committee shall compile a report to shareholders on its activities to be included in the company's Annual Report.

1.8 *Authority*

The Committee is authorised:

- (a) to seek any information it requires from any employees of the company in order to perform its duties;
- (b) to obtain, at the company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- (c) to call any employee to be questioned at a meeting of the Committee as and when required.

1.9 *Review of Audit committee*

- (a) The Committee shall, at least once a year, review its own and the Chairman's performance, the constitution and the terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.

1.10 *Authority*

- (a) The Committee is authorised by the Board to seek any information it requires from any employee of the company in order to perform its duties.
- (b) In connection with its duties the Committee is authorised by the Board to obtain, at the company's expense, any outside legal or other professional advice.

1.11 *Other Matters*

The Audit 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, the provisions of the Combined Code and the requirements of the UK Listing Authority's Listing Rules as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors; and
- (e) oversee any investigation of activities which are within its terms of reference and act as a court of the last resort.
- (f) ensure that the Committee's terms of reference are made public, preferably on the company's website