

LOUNGERS PLC

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

In this document, the "**Board**" shall mean the Board of directors of the Company; the "**Committee**" shall mean the Audit Committee; the "**Company**" shall mean Loungers plc.

1. CONSTITUTION

The Committee was constituted at a full meeting of the Board held on 23 April 2019 in accordance with the articles of association of the Company.

2. PURPOSE OF COMMITTEE

2.1 The purpose of the Committee is to oversee the internal financial controls and risk management system of the Company and its subsidiaries (the "**Group**") s; to recommend the half and full year financial results to the Board; and to monitor the integrity of all formal reports and announcements relating to the Company's financial performance.

2.2 In addition, the Committee shall:

- (A) appoint the internal auditors and maintain an appropriate relationship with them and the external auditor of the Group; and
- (B) report the findings and recommendations of the internal and external auditors to the Board.

3. MEMBERSHIP

3.1 The Committee shall comprise at least three members. Membership shall include, where possible, one member of the Remuneration Committee. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the chair of the Committee.

3.2 A majority of the Committee shall be independent non-executive directors, at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Committee as a whole shall have competence relevant to the sector(s) in which the Company operates. The chair of the Board shall not be a member of the Committee.

3.3 Only members of the Committee have the right to attend Committee meetings. However, the finance director, head of internal audit (if appointed) and external audit lead partner will 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.

3.4 The Board shall appoint the Committee chair. In the absence of the Committee chair and/or an appointed deputy at a Committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

3.5 Appointments to the Committee shall be for a period of up to three years, extendable by no more than two additional three-year periods (subject always to such members remaining on the Board), so long as members continue to be independent.

4. SECRETARY

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.

5. QUORUM

The quorum necessary for the transaction of business shall be two members of the Committee, one of whom shall have recent and relevant financial experience and be competent in accounting and/or auditing.

6. FREQUENCY OF MEETINGS

6.1 The Committee shall meet at least three times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.

6.2 Outside of the formal meeting programme, the Committee chair, and to a lesser extent the other Committee members, will maintain a dialogue with key individuals involved in the Company's governance, including the Board chair, the chief executive, the finance director, the external audit lead partner and the head of internal audit/ independent internal audit firm representative.

7. NOTICE OF MEETINGS

7.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any of its members or at the request of the external audit lead partner or head of internal audit (if appointed) if they consider it necessary.

7.2 Unless otherwise agreed by the Committee, 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, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting (or such shorter period of time as the members of the Committee may otherwise agree). Supporting papers shall be sent to Committee members at the same time.

7.3 Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

8. MINUTES OF MEETINGS

8.1 The secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.

8.2 Draft Committee minutes shall be agreed with the Committee chair and then circulated

promptly to all Committee members, unless it would be inappropriate to do so in the opinion of the Committee chair.

9. ENGAGEMENT WITH SHAREHOLDERS

The Committee chair shall attend the annual general meeting to answer shareholder questions on the Committee's activities. In addition, the Committee chair should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility

10. DUTIES

The Committee should have oversight of the Group as a whole and, unless required otherwise by regulation, carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole.

10.1 Financial Reporting

- (A) The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements, preliminary announcements and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgments which those statements contain having regard to matters communicated to it by the auditor.
- (B) In particular, the Committee shall review and challenge where necessary:
- (1) consistency of significant accounting policies and any changes to such significant accounting policies both on a year on year basis and across the Company and its Group;
 - (2) the methods used to account for significant or unusual transactions where different approaches are possible;
 - (3) any significant adjustments resulting from an audit
 - (4) the going concern assumption;
 - (5) whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgments, taking into account the external auditor's views on the financial statements;
 - (6) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
 - (7) all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.
- (C) 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 including the Market Abuse Regulation, the AIM Rules for Company and/or the Disclosure Guidance and Transparency Rules sourcebook.

- (D) 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.

10.2 **Narrative Reporting**

Where requested by the Board, the Committee shall 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 and whether it informs the Board's statement in the annual report on these matters .

10.3 **Internal Controls and Risk Management Systems**

The Committee shall:

- (A) keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems; and
- (B) review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement.

10.4 **Compliance, Whistleblowing and Fraud**

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.

10.5 **Internal Audit**

- (A) The Committee shall consider annually whether the Company's size and activities are such that an internal audit function should be established and, if so, determine its remit and make a recommendation to the Board. The Committee shall consider whether there are any trends or current factors relevant to the Company's activities, markets or other aspects that have increased, or are expected to increase, the risks faced by the Company.

10.6 External Audit

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 and removal of the Company's external auditor;
- (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 develop and oversee the selection process for the appointment of the audit firm and ensure that all tendering firms have access to all information and individuals as is necessary during the duration of the tendering process;
- (C) if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;
- (D) oversee the relationship with the external auditor. In this context the Committee shall:
 - (1) 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
 - (2) approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- (E) assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the Group's relationship with the auditor 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;
- (F) satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- (G) agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy;
- (H) monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff;
- (I) monitor the level of fees paid by the Company to the external auditor

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;

- (J) assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures;
- (K) seek to ensure co-ordination of the external audit with the activities of the internal audit function;
- (L) evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the Committee;
- (M) develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, 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:
 - (1) threats to the independence and objectivity of the external auditor and any safeguards in place;
 - (2) the nature of the non-audit services;
 - (3) whether the external audit firm is the most suitable supplier of the non-audit service;
 - (4) the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
 - (5) the criteria governing compensation;
- (N) meet regularly with the external auditor (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 auditor without management being present, to discuss the auditor's remit and any issues arising from the audit;
- (O) discuss with the external auditor 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;
- (P) review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
 - (1) a discussion of any major issues which arose during the audit;
 - (2) the auditor's explanation of how the risks to audit quality were addressed;
 - (3) key accounting and audit judgments;
 - (4) the auditor's view of their interactions with senior management; and
 - (5) levels of errors identified during the audit;
- (Q) review any representation letter(s) requested by the external auditor before they are signed by management;

- (R) review the management letter and management's response to the auditor's findings and recommendations; and
- (S) review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgments by the auditor, and the auditor's response to questions from the Committee.

11. REPORTING RESPONSIBILITIES

- 11.1 The Committee chair shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:
 - (A) the significant issues that it considered in relation to the financial statements (required under paragraph 10.1(a)) and how these were addressed;
 - (B) its assessment of the effectiveness of the external audit process (required under paragraph 10.6(j)), the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any retendering plans; and
 - (C) any other issues on which the Board has requested the Committee's opinion.
- 11.2 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3 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; and all other information requirements set out in the Quoted Companies Alliance's Corporate Governance Code published in April 2018 ("**QCA Code**").
- 11.4 In compiling the reports referred to in 11.1 and 11.3, the Committee should exercise judgment 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. The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.

12. OTHER MATTERS

The Committee shall:

- 12.1 have access to sufficient resources in order to carry out its duties, including access to the company secretary for assistance as required;
- 12.2 be provided with appropriate and timely training, both in the form of an induction

programme for new members and on an on-going basis for all members;

- 12.3 give due consideration to relevant laws and regulations, QCA Code and the requirements of the London Stock Exchange AIM Rules for Companies and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 12.4 be responsible for co-ordination of the internal and external auditors;
- 12.5 oversee any investigation of activities which are within its terms of reference;
- 12.6 work and liaise as necessary with all other Board committees, taking particular account of the impact of risk management and internal controls being delegated to different committees; and
- 12.7 arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board.

13. AUTHORITY

The Committee is authorised to:

- 13.1 seek any information it requires from any employee of the Company in order to perform its duties;
- 13.2 obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;
- 13.3 call any employee to be questioned at a meeting of the Committee as and when required; and
- 13.4 have the right to publish in the Company's annual report, details of any issues that cannot be resolved between the Committee and the Board.

Approved and adopted by the Board on 23 April 2019 and amended on 14 July 2021