

**DATED 1 December 2016**

**HOSTELWORLD GROUP PLC**

**AUDIT COMMITTEE – TERMS OF REFERENCE**

## HOSTELWORLD GROUP PLC (the "Company")

### AUDIT COMMITTEE - TERMS OF REFERENCE

#### CONSTITUTION

1. The Committee has been established by resolution of the board of directors of the Company (the "**Board**") and is to be known as the Audit Committee (the "**Committee**").
2. The Committee shall consist of a minimum of 2 members (or 3 members if the Company is a FTSE 350 company) who are independent non-executive directors of the Company appointed by the Board on the recommendation of the Nomination Committee and in consultation with the Committee Chairman. The Chairman of the Committee, who shall be an independent non-executive director, shall be appointed by the Board on the recommendation of the Nomination Committee which shall determine the period for which he shall hold office. 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. The Chairman of the Board shall not be eligible to be appointed as Chairman of the Committee but will serve on the Committee as an additional member on the basis that, as at the date of adoption of these Terms of Reference, the Company is a smaller company outside the FTSE 350 and that he was considered independent on appointment as Chairman. The Chairman of the Board shall not be a member of the Committee if the Company is a FTSE 350 company.
3. Appointments to the Committee shall be for a period for up to three years, which may be extended by no more than two further three year periods, provided the members continue to be independent.
4. The Board shall regularly review the membership of the Committee to ensure that membership is refreshed and undue reliance is not placed on particular individuals.
5. 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 issues.
6. At least one member of the Committee should have recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies.
7. The Committee as a whole should have competence relevant to the sector in which the Company operates
8. The quorum for decisions of the Committee shall be any 2 members at least one of whom must have recent and relevant financial experience.

#### ROLE

9. The Committee should carry out the duties below for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

#### Financial reporting

- 9.1 The Committee shall monitor the integrity of the financial statements of the Company including its annual and half-yearly reports, interim management statements (if applicable), preliminary results' announcements (if applicable) and

any other formal announcement relating to its financial performance, reviewing significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the external auditor.

**9.2** 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 external auditor;
- (d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- (e) significant adjustments resulting from the audit;
- (f) the going concern assumption;
- (g) compliance with accounting standards;
- (h) compliance with stock exchange and other legal requirements; and
- (i) 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).

**9.3** The Committee shall review the annual financial statements of the pension funds where not reviewed by the Board as a whole.

**9.4** 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.

**9.5** Whenever practicable, the Committee shall review any other statement containing financial information for which Board approval is required.

#### **Narrative reporting**

**9.6** 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.

#### **Internal controls and risk management systems**

**9.7** The Committee shall:

- a)** maintain a formal risk register for the group, recording financial, operational and business risks across the group, and review this at least twice per annum;
- b)** advise the board on the Company's overall risk appetite, tolerance and strategy;

- c) monitor progress of the Company in addressing and managing the identified risks;
- d) keep under review the adequacy and effectiveness of the Company's internal financial controls and internal control and risk management systems;
- e) update the Board as to the FPP risks remaining, notwithstanding control procedures in place;
- f) review reports received from the Company's management on the effectiveness of the internal control and risk management systems established and the conclusions of any testing carried out by the internal or external auditors;
- g) annually receive and review a report from the Company's management assessing the Company's compliance with the UK Corporate Governance Code;
- h) review and approve the statements to be included in the annual report concerning internal controls and risk management.

#### **Compliance, whistleblowing and fraud**

**9.8** The Committee shall:

- a) perform an annual assessment of the Company's compliance with the UK Corporate Governance Code, and confirm to the Board that compliance is complete, or report to the Board any instance of non-compliance;
- b) review the adequacy and security of 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;
- c) review the Company's procedures for detecting fraud;
- d) review the Company's systems and controls for the prevention of bribery and receive and review reports on non-compliance;
- e) review the adequacy and effectiveness of the Group's anti-money laundering systems and controls and receive and review regular reports from the money laundering reporting officer; and
- f) review the adequacy and effectiveness of the Group's compliance function and receive and review regular reports from the compliance officer.

#### **Internal audit**

**9.9** The Committee shall consider annually whether there is a need for an internal audit function, taking into account whether there are any trends or current factors relevant to the Company's activities, markets or other aspects of its external environment that have increased, or are expected to increase, the risks faced by the Company.

## External Audit

### 9.10 The Committee shall:

- a) consider and make recommendations to the Board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for a new external auditor and if an external auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 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 external 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) oversee the relationship with the external auditor including (but not limited to):
  - a. approve their remuneration, whether fees for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
  - b. approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - c. assessing annually their independence and objectivity taking into account relevant UK law, professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
  - d. 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) which could materially adversely affect the auditor's independence and objectivity taking into the relevant Ethical Standards for Auditors;
  - e. agreeing with the Board a policy on the employment of former employees of the Company's external auditor, then monitoring the implementation of this policy;
  - f. seek information and monitor annually the external auditor's policies and procedures for maintaining independence and monitoring compliance with the 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;
  - g. assessing annually the qualifications, expertise and resources of the external auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;

- h. as part of assessing the effectiveness of the audit process annually, matters which may be considered include:
    - (i) reviewing whether the external auditor has met the agreed audit plan and understand the reasons for any changes;
    - (ii) considering the robustness and perceptiveness of the external auditors in their handling of key accounting and audit judgements identified;
    - (iii) obtaining feedback about the conduct of the audit from key employees engaged in the process;
    - (iv) reviewing and monitoring the content of the external auditor's management letter and establishing whether recommendations have been acted upon and if not, the reasons why they have not been acted upon; and
    - (v) seeking to ensure co-ordination with the activities of the internal audit function (if such function is established);
  - i. considering the risk of the withdrawal of the Company's present external auditor from the market;
  - j. 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 external auditor from the market in that evaluation; and
  - k. considering, where appropriate, whether there might be any benefit in using more than one audit firm;
- 9.11** meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage;
- 9.12** review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team;
- 9.13** review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- (a) a discussion of any major issues which arose during the audit;
  - (b) any accounting and audit judgements;
  - (c) levels of errors identified during the audit; and
  - (d) the effectiveness of the audit process;
- 9.14** set and apply a formal policy specifying the types of non-audit service for which the use of the external auditor is pre-approved; for which specific approval from the Committee is required; and from which the external auditor is excluded;

**9.15** ensure that, if the external auditor provides non-audit services, an explanation is provided for the shareholders in the annual report on how the external auditor's objectivity and independence is safeguarded, setting out the Committee's policy on the provision of non-audit services and disclosing the details set out in the FRC Guidance on Audit Committee in relation to each significant engagement;

**9.16** The Committee shall also:

- (a) review any representation letter(s) requested by the external auditor before they are signed by management;
- (b) review the management letter and management's response to the external auditor's findings and recommendations; and
- (c) 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. The policy should be kept under review in order to ensure that the provision of such services does not impair the external auditor's independence or objectivity and the Committee shall report to the Board if the policy has not been implemented adequately.

## **10. REPORTING RESPONSIBILITIES**

**10.1** All proceedings of the Committee shall be reported formally to the Board by the Committee Chairman.

**10.2** The Committee Chairman or, as a minimum, another member of the Committee, shall attend the Board meeting at which the accounts are approved.

**10.3** The Committee Chairman 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 8.1.1) and how these were addressed;
- (b) its assessment of the effectiveness of the external audit process (required under paragraph 8.6.3(g)) and its recommendation on the appointment or reappointment of the external auditor; and
- (c) any other issues on which the Board has requested the Committee's opinion.

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

**10.5** The Committee shall compile a report on its activities to be included in the Company's annual report. The report should include:

- (a) a summary of the role of the Committee;
- (b) the names and qualifications of all members of the Committee during the period;

- (c) the number of Committee meetings;
- (d) the significant issues that the Committee considered in relation to the financial statements and how these issues were resolved;
- (e) an explanation of how the Committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, information on the length of the current firm tenure, when a tender was last conducted, and any contractual obligations that restrict the Committee's choice of external auditor; and
- (f) if the external auditor provides non-audit services, how auditor objectivity and independence is safeguarded.

**10.6** In compiling the reports referred to in 8.7.3 and 8.7.5, 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.

## **11. OTHER MATTERS**

### **11.1 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, including the provisions of the UK Corporate Governance Code, the requirements of the Financial Conduct Authority's Listing, Prospectus and Disclosure and Transparency Rules, the Listing Rules of the Irish Stock Exchange, the Market Abuse (Directive 2003/6/EC) Regulations 2005 of Ireland, the market abuse rules issued by the Central Bank of Ireland and the provisions of the FRC's Guidance on Audit Committees as appropriate;
- (d) be responsible for co-ordination of the internal and external auditors;
- (e) oversee any investigation of activities which are within its terms of reference;
- (f) in exercising its powers, to take into account the duties of directors under Chapter 2 of Part 10 of the Companies Act 2006 including, in particular, section 172 of the 2006 Act, which requires a director to act in a way he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
  - (i) the likely consequences of any decision in the long term;

- (ii) the interests of the Company's employees;
- (iii) the need to foster the Company's business relationships with suppliers, customers and others;
- (iv) the impact of the Company's operations on the community and the environment;
- (v) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- (vi) the need to act fairly as between members of the Company;
- (g) promptly provide the Board with such information as may be necessary or desirable in the opinion of the Board to enable the Board to monitor its conduct in order that each member of the Board may fulfil his duties and responsibilities as a director;
- (h) ensure that it is in a position to justify all of its actions and proposed courses of action; and
- (i) work and liaise as necessary with all other Board committees.

#### **PROCEDURE**

- 12.** No one other than the Committee Chairman and members of the Committee is entitled to be present or vote at a meeting of the Committee.
- 13.** However, the Company's external auditors and the Company's Chairman, Chief Executive and/or Finance Director may attend and speak at meetings of the Committee at the invitation of the Committee. At least once each year representatives of the Company's external auditors shall meet the Committee without any executive directors being present, to discuss the external auditor's remit and any issues arising from the audit.
- 14.** The Committee shall meet at least two times each year and at such other times as the Chairman of the Committee shall require. Where appropriate, meetings should coincide with key dates in the Company's financial reporting cycle.
- 15.** Outside of the formal meeting programmes, 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 Finance Director, the external audit lead partner and the head of internal audit.
- 16.** The Company's external or internal auditor may request a meeting if they consider it necessary. Meetings may also be called by the Secretary of the Committee at the request of any member of the Committee.
- 17.** At least 5 days' notice of any meeting of the Committee shall be given, although such notice period may be waived or shortened with the consent in writing of all the members of the Committee for the time being. Notice of the meeting shall confirm the venue, time and date together with an agenda of items to be discussed. Notice shall be sent to each member of the Committee, any other person required to attend and all other non-executive directors. Supporting papers shall be sent to Committee members and to other attendees as appropriate at the same time.

18. The Secretary shall keep a record of:
  - a) the membership, and the dates of any changes to the membership, of the Committee; and
  - b) any non-audit services provided by the external auditor to enable the Company to make the necessary statement in the annual report on safeguarding the auditor's objectivity and independence.
19. The Secretary shall record, at the beginning of each meeting, the existence of any conflicts of interests and minute them accordingly. The Secretary shall record the proceedings and resolutions of meetings of the Committee, including the names of those present and in attendance. The Secretary shall circulate the draft minutes of such meetings to all members of the Committee promptly. Minutes of all meetings will include an Action Log to track and address Matters Arising in the course of meetings. Once agreed, the minutes shall be circulated by the Secretary to all members of the Board, unless a conflict of interest exists or the Committee Chairman decides it would be inappropriate to do so.
20. The Chairman of the Committee shall attend the Company's Annual General Meeting prepared to respond to any shareholder questions on the Committee and its activities and responsibilities.
21. The Committee terms of reference shall be made available on the Company's website in accordance with the UK Corporate Governance Code.
22. The Committee is authorised:
  - a) to investigate any activity within its terms of reference and seek directly any information it requires from any employee or contractor of the Company (all such persons being directed to co-operate with any such request by the Committee);
  - b) to obtain outside legal or other independent professional advice at the cost of the Company to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary (but such persons shall not be members of the Committee); and
  - c) to call any employee to be questioned at a meeting of the Committee as and when required.
23. The Committee shall conduct an annual review of its work, constitution, membership, performance and these terms of reference to ensure it is operating at maximum effectiveness and shall make recommendations for any changes to the Board.
24. The Committee shall report to the Board on how it has discharged its responsibilities.
25. References in these terms of reference to the "**Group**" mean the Company, its subsidiaries and its subsidiary undertakings.

**1 December 2016**