

DIGITAL MARKETING GROUP PLC

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

Constitution

1. It is resolved that a committee of the board be established, to be known as the audit committee.

Membership

2. The audit committee shall be appointed by the board in accordance with the Company's articles of association from amongst the non-executive directors of the Company. At least one committee member shall have recent and relevant financial experience.
3. It shall comprise at least two members.
4. Each member shall hold office as a committee member for a period of up to three years, which may be extended by no more than two additional three-year periods.
5. The first members shall be Stephen Davidson, Barry Jenner, Ian Robinson and Andrew Wilson.
6. The chairman of the committee shall be appointed by the board on the recommendation of the nomination committee from among the members of the audit committee and shall be Ian Robinson at the date of approval of these terms of reference. In the absence of the chairman of the audit committee (and/or an appointed alternate member) the members present at any meeting of the committee shall elect one of their number to chair the meeting.
7. If any member of the audit committee is unable to act for any reason, the chairman of the audit committee may appoint another non-executive director of the Company to act as that member's alternate.
8. The chairman and members shall be listed each year in the Company's annual report.
9. The company secretary or their nominee shall be the secretary of the audit committee.
10. Each member of the audit committee shall disclose to the audit committee:
 - (a) any personal financial interest (other than as a shareholder) in any matter to be decided by the audit committee; or
 - (b) any potential conflict of interest arising from a cross-directorship.

Any such member shall abstain from voting on resolutions of the audit committee in relation to which such interest exists and from participating in the discussions concerning such resolutions and (if so requested by the board) shall resign from the audit committee.

Attendance at meetings

11. No one other than the chairman and members of the audit committee is entitled to be present at a meeting of the audit committee. The chairman and members of the audit committee shall,

however, have the discretion to decide if non-members should be invited to attend for a particular meeting or a particular agenda item.

12. It is expected that the external audit lead partner will be invited regularly to attend meetings, as well as the finance director. At least once a year, the audit committee shall meet with the auditors, without management, to discuss matters relating to its remit and any issues arising from the audit.

Meetings

13. The audit committee chairman, in consultation with the company secretary, shall decide the frequency and timing of the audit committee's meetings. In any event, meetings shall be held not less than twice a year, to coincide with key dates within the financial reporting and audit cycle. A meeting shall be held as soon as reasonably practicable upon a request for such meeting by the Company's auditors.
14. The quorum for meetings of the audit committee shall be two members.
15. Where possible, notice of each meeting confirming the venue, date and time together with an agenda of items to be discussed and supporting papers, where appropriate shall be forwarded to each member of the audit committee no fewer than three working days prior to the date of the meeting. All reasonable efforts shall be made to give notice of meetings of the audit committee to all members of it and to arrange such meetings so that members are able to attend them.
16. In the event of equality of votes, the chairman of the audit committee shall have a casting vote.
17. The secretary of the committee shall prepare minutes of any meeting of the audit committee and, after approval and signature by the chairman of the audit committee, shall circulate them to all members of the board and any invited attendees, if applicable.
18. The chairman of the audit committee shall be available to answer questions about the committee's activities at the annual general meeting of the Company. All members of the audit committee shall make all reasonable efforts to attend the annual general meeting.

Authority

19. The audit committee should be provided with sufficient resources to undertake its duties.
20. The audit committee is authorised by the board to obtain outside legal, accounting or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, if it considers this necessary, at the Company's expense. The audit committee shall have access to the external auditors as required.
21. The audit committee shall have access to the services of the company secretariat on all audit committee matters including (but not limited to) assisting the chairman in planning the audit committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of practical support.
22. The audit committee is authorised by the board to investigate any activity within the scope of its duties.

23. The audit committee is authorised to seek any information it requires from any employee of the Group. All employees are directed to co-operate with any request made by the audit committee.

Duties

24. The duties of the audit committee shall be:

(a) Auditors

- (i) to consider and make recommendations to the board, for it to put to the shareholders for their approval in general meeting in relation to the appointment, re-appointment and removal of the auditors and to approve the remuneration and terms of engagement of the auditor;
- (ii) if the board does not accept the audit committee's recommendation on the appointment, re-appointment and removal of auditors, to 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;
- (iii) to meet with the audit lead partner and other audit partners and staff as required and in accordance with paragraphs 12 and 13 above;
- (iv) to assess annually the qualification, expertise and resources, and independence of the auditors and the effectiveness of the audit process;
- (v) if the auditor resigns, to investigate the issues leading to such resignation and to consider whether any action is required;
- (vi) to review and agree the engagement letter with the auditor at the start of each audit; to discuss with the external auditors before the audit commences and keep under review the scope and results of the audit, as well as whether the level of fee payable is appropriate for the provision of those services; and ensure co-ordination where more than one audit firm is involved;
- (vii) to review and monitor the auditor's independence, objectivity and the effectiveness of the audit process annually, taking into consideration relevant UK professional and regulatory requirements;
- (viii) to develop and implement a policy on the provision of non-audit services by the auditor, taking into account relevant ethical guidance; and to report to the board identifying any matters in respect of which it considers that action or improvement is needed and make recommendations as to the steps to be taken (so as to ensure that the provision of such services does not impair the auditor's independence and objectivity);
- (ix) to consider the auditors' work plan for the annual audit and proposed resources in light of the scope of the audit;
- (x) to review with the auditors (in the absence of management if necessary), the results of their work in conducting the annual audit, including:
 - (A) any major issues that arose during the course of the audit;
 - (B) key accounting and audit judgements;

- (C) levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted; and
 - (D) any reservations that the external auditors may have and other matters that they wish to raise;
 - (xi) to review the audit representation letters before signature by management, giving particular consideration to matters where representation has been requested that relates to non-standard issues;
 - (xii) to review the external auditors' management letter and management's response; and
 - (xiii) at the end of the end of the annual audit cycle, to assess the effectiveness of the audit process.
- (b) Internal Audit
- (i) to review and approve the internal audit function's remit, having regard to the role fulfilled by the external audit function;
 - (ii) to ensure that the Head of Internal Audit has direct access to the chairman of the company and to the audit committee;
 - (iii) to monitor and review the effectiveness of the internal audit function, as well as to ensure that the internal audit function is adequately resourced, has access to the information necessary to enable it to fulfil its mandate, and is able to perform in accordance with appropriate professional standards for internal auditors;
 - (iv) if the company has no internal audit function, to annually consider the need for one and make a recommendation to the board; and
 - (v) to approve the appointment or termination of appointment of the Head of Internal Audit.
- (c) Financial Statements
- (i) to monitor the integrity of the financial statements of the company including any interim reports and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them, focusing particularly on:
 - (A) considering significant accounting policies, any changes to them and any significant estimates and judgements;
 - (B) where the accounting treatment is open to different approaches, considering whether the company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements; and
 - (C) reviewing the clarity and completeness of disclosures in the financial statements and considering whether the disclosures made are set properly in context;

- (d) Internal Control and Risk Management
- (i) to review the company's internal financial controls (that is, the systems established to identify, assess, manage and monitor financial risks) and to review the Group's internal control and risk management systems;
 - (ii) to review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, so as to ensure that arrangements are in place for the proportionate and independent investigation of such matters, and for appropriate follow-up action; and
 - (iii) to consider the major findings of internal investigations and management's response.
- (e) Reporting Responsibilities
- (i) to review the statement by the directors to be included in the annual accounts on the going concern status of the company and the group and any supporting assumptions and qualifications;
 - (ii) to assist the board by preparing a statement for inclusion in the directors' report (to shareholders as contained in the annual report) describing the roles and responsibilities of the audit committee and actions taken by the committee to discharge those responsibilities; as well as listing the names and qualifications of all members of the committee, the number of committee meetings and attendance by each member;
 - (iii) to produce for the board's approval the statement for inclusion in the annual report in relation to internal control and the management of risk;
 - (iv) where there is no internal audit function, to set out the reasons for the absence of such a function in the relevant section of the annual report;
 - (v) if the auditor provides non-audit services, to provide an explanation for inclusion in the annual report of how auditor objectivity and independence is safeguarded; and
 - (vi) The chairman of the audit committee shall report formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities.
- (f) Miscellaneous
- (i) to ensure co-ordination of the internal and external auditors;
 - (ii) to make available these terms of reference, explaining the role and the authority delegated to it by the board, on request and by including the information on the company's website;
 - (iii) to consider other topics, as defined by the board; and
 - (iv) The committee shall 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.