

Terms of Reference - Audit Committee

Constitution
Purpose
Membership and Quorum
Attendance at Meetings
Frequency of Meetings
Authority
Duties
Reporting Procedures
Other Matters

1. **Constitution**

The Board has resolved to establish a Committee of the Board to be known as the Audit Committee (the “Committee”).

2. **Purpose**

- 2.1 To assist the Board in monitoring the integrity of the Company’s financial statements and any formal announcements relating to financial performance and reviewing significant financial reporting judgements contained in them;
- 2.2 To review the internal financial controls and the risk management and internal control systems;
- 2.3 To monitor the effectiveness of the Company’s internal audit function;
- 2.4 To oversee the Company’s relations with the external auditor.

3. **Membership and Quorum**

- 3.1 The Committee shall be appointed by the Board and shall consist wholly of independent non-executive Directors at least one of whom shall have recent and relevant financial experience and competence in accounting and/or auditing. The Committee shall consist of not less than three members. A quorum shall be two members;
- 3.2 The membership of the Committee shall be reviewed on an annual basis by the Nomination Committee;
- 3.3 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;
- 3.4 The Chairman of the Committee shall be appointed by the Board.

4. **Attendance at Meetings**

- 4.1 Any Director may apply to the Chairman of the Committee to attend meetings. The decision of the Chairman of the Committee is final. Only non-executive Directors of the Company who are members of the Committee are entitled to vote in arriving at decisions of the Committee. The Chairman of the Board, Chief Financial Officer, the Chief Executive Officer and a representative of the external auditors shall normally be invited to attend meetings. However at least once a year the Committee shall meet with the internal and external auditors without any executive Director or employees and without the Secretary of the Committee present;
- 4.2 The Company Secretary or nominee of the Committee shall act as secretary of the Committee.

5. **Frequency of Meetings**

Meetings shall be held not less than three times a year at appropriate times in the reporting and audit cycle and otherwise as the Chairman of the Committee deems necessary. The external auditors may request a meeting if they consider that one is necessary.

6. **Authority**

- 6.1 The Committee has no executive authority but it is authorised by the Board to investigate any activity within its terms of reference including any information it requires from any employee in the Group and in that respect all employees shall be directed to meet any request made by the Committee. The Committee will advise the Chief Executive Officer and appropriate executive Directors if it requires information from any employee;
- 6.2 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

7. **Duties**

The duties of the Committee shall be:

External Auditors

- 7.1 To conduct a tender process and make recommendations to the Board on the appointment, re-appointment and removal of the external auditor in accordance with relevant regulations and approving the remuneration and terms of engagement of the external auditor;
- 7.2 To review and monitor the external auditor's independence and objectivity;
- 7.3 To review the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- 7.4 To develop and implement policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required;
- 7.5 To approve the terms of engagement of the external auditor, including any engagement letter issued at the start of each audit and the scope of the audit;
- 7.6 To review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement, seeking to ensure coordination with the activities of the internal audit function;
- 7.7 To satisfy itself that there are no relationships (i.e. family, employment, investment, financial or business) between the external auditor and the Company (other than in the ordinary course of business);
- 7.8 To agree with the Board a policy on the employment of former employees of the external auditor, then monitor the implementation of this policy;
- 7.9 To monitor the external 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;
- 7.10 To assess annually the external auditor's qualifications, expertise and resources and the effectiveness of the external audit process which shall include a report from the external auditor on their own internal quality procedures;
- 7.11 To review the external auditor's management letter and management's response;
Financial reporting

- 7.12 To review and challenge where necessary the integrity of the half-year and annual financial statements and any other financial circulars to shareholders before submission to the Board, focusing particularly on:
- the consistency of, and any changes in, accounting policies and practices
 - whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
 - methods used to account for significant adjustments or unusual transactions resulting from the audit
 - compliance with laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the UK Listing Authority's Listing Rules as appropriate
 - the clarity of disclosure in the Company's financial reports and the context in which statements are made
 - all material information presented within the financial statements (insofar as it relates to the audit and to risk management)
- 7.13 To review and provide advice to the Board on whether the annual report and accounts taken as a whole, is fair, balanced and understandable and provide information necessary for shareholders to assess the Company's performance, business model and strategy;
- 7.14 To discuss any problems and reservations arising from the review of the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
- Risk and Control Environment
- 7.15 To monitor the Company's risk management and internal control systems and review the effectiveness and the processes for assessing such systems;

Internal Audit

- 7.16
- approve the appointment and removal of any head of the Group internal audit function as appropriate and as necessary
 - review the effectiveness of the Group's internal audit function or, where there is not one, considering annually whether there is a need for one and making recommendation to the Board
 - consider and approve the remit of the Group internal audit function and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with relevant professional standards
 - approve the annual internal audit plan and review progress against the plan.
 - review the internal financial and non-financial control reviews performed by the Group internal audit function
 - review the results of the annual self-assessment performed by each business
 - review and monitor management's responsiveness to the findings and recommendations of the Group internal audit function
 - review the company's procedures for detecting financial fraud
 - review and approve statements to be included in the annual report concerning internal controls and risk management
 - monitor and review the effectiveness of the internal audit function in the context of the overall risk management system

- meet the head of Group internal audit at least once a year, without management being present, to discuss their remit and any issues arising from internal audits carried out

Other Matters

- 7.17 To review the Company's procedures for handling allegations from whistleblowers about possible wrongdoing in financial reporting or other matters and ensure that arrangements allow proportionate and independent investigation of such matters and for appropriate follow-up action;
- 7.18 To review and satisfy itself that the systems and processes for disclosure of information to the Board and the Committee are appropriate and robust so as to enable the Board, Committee and individual Directors to discharge their duty to make proper disclosure to the external auditors of relevant audit information;
- 7.19 The Chairman of the Audit Committee shall attend the Company's Annual General meeting to answer questions.

8. Reporting Procedures

- 8.1 In carrying out its duties the Committee will work closely with and through the Chief Financial Officer who will be informed of any meetings between the Committee and external auditors and other advisers. If the Committee feels it necessary to depart from this practice then it will do so only with the prior approval of the Chairman of the Board or a majority of the non-executive Directors;
- 8.2 Agendas and papers for meetings will normally be circulated by the Company Secretary at least five days before the meeting. All Directors whether or not members of the Committee will receive copies of the agenda and papers for a meeting;
- 8.3 The Company Secretary shall circulate the minutes of meetings of the Committee to all members of the Board;
- 8.4 The Chairman of the Committee shall provide at the next Board meeting an oral report on each meeting of the Committee and shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed;
- 8.5 The Committee shall report on :
- the work of the Committee in discharging its responsibilities
 - the significant issues it considered in relation to the financial statements and how these issues were addressed
 - how it has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and any retendering plans;
 - how auditor objectivity and independence is safeguarded;
 - the frequency of, and attendance by members at, Committee meetings in the Annual Report
 - internal controls
- 8.6 The terms of reference of the Committee, including its role and the authority delegated to it by the Board, shall be made available.

9. Other Matters

The Committee shall:

- 9.1 Have access to sufficient resources in order to carry out its duties;
- 9.2 Be provided with appropriate and timely training both in the form of an induction programme and on an ongoing basis;

- 9.3 At least once a year, review its own performance, constitution and terms of reference and recommend proposed changes to the Board.

Approved by the Board of Directors of De La Rue plc on 28 March 2019