



## Terms of Reference - Audit Committee

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### 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 as a whole shall have competence relevant to the sector in which the Company operates. The Committee shall consist of not less than three members. The Chairman of the Board shall not be a member of the Committee. A quorum shall be two members.
- 3.2. Appointments to the Committee are made by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Committee, and shall be for a period of up to three years which may be extended for two further three-year periods, provided the relevant Director continues to be independent.
- 3.3. 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. **Annual General Meeting and Shareholder Engagement**

The Chairman of the Committee shall attend the Company's Annual General Meeting to answer questions on the Committee's activities. In addition, the Chairman of the Committee should seek engagement with shareholders on significant matters related to the Committee's areas of responsibility.

## 7. **Authority**

7.1. 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.

7.2. The Committee is authorised by the Board to obtain, at the Company's expense, outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

7.3. The Committee has the right to publish in the Annual Report details of any issues that cannot be resolved between the Committee and the Board. If the Board has not accepted the Committee's recommendation on the external auditor appointment, reappointment or removal, the Annual Report should include a statement explaining the Committee's recommendation and the reasons why the Board has taken a different position.

## 8. **Duties**

The duties of the Committee shall be:

### External Auditors

8.1. To conduct a tender process and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting, 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;

8.2. To develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable UK Corporate Governance Code (the "Code") and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;

8.3. If an external auditor resigns, to investigate the issues leading to this and decide whether any action is required;

8.4. To review annually and monitor the external auditor's independence and objectivity taking into account relevant 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;

8.5. To review the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;

8.6. 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 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:

- threats to the independence and objectivity of the external auditor and any safeguards in place;
  - the nature of non-audit services;
  - whether the external audit firm is the most suitable supplier of the non-audit service;
  - the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - the criteria governing compensation;
- 8.7. To oversee the relationship with the external auditor. In this context, the Committee shall:
- 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
  - 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;
- 8.8. 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;
- 8.9. To satisfy itself that there are no relationships (e.g. family, employment, investment, financial or business relationships) between the external auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 8.10. To agree with the Board a policy on the employment of former employees of the external auditor, taking into account the Ethical Standard and legal requirements, and monitor the implementation of this policy;
- 8.11. To monitor the external auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partners and staff;
- 8.12. To 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;
- 8.13. To assess annually the external auditor's 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;
- 8.14. To 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;
- 8.15. To 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;
- 8.16. To 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;
- 8.17. To review the findings of the audit with the external auditor. This shall include but not be limited to, the following:
- a discussion of any major issues which arose during the audit;



- the auditor's explanation of how the risks to audit quality were addressed;
- key accounting and audit judgements;
- the auditor's view of their interactions with senior management;
- levels of errors identified during the audit;
- review any representation letters requested by the external auditor before they are signed by management;
- review the external auditor's management letter and management's response to the findings and recommendations; and
- review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the Committee;

### Financial reporting

- 8.18. 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 on significant financial reporting issues and judgements which those statements contain, having regard to matters communicated to it by the auditor and focusing particularly on:
- the application of, and any changes in, accounting policies and practices;
  - whether the Company has adopted appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor on the financial statements;
  - methods used to account for significant adjustments or unusual transactions resulting from the audit where different approaches are possible;
  - compliance with laws and regulations, the provisions of the Code and the requirements of the FCA's Listing Rules as appropriate;
  - the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
  - all material information presented within the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management;
- 8.19. To 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 Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules;
- 8.20. 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 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 that is required under the Code;
- 8.21. 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);
- 8.22. Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Company, to report its views to the Board;

### Risk and Control Environment

- 8.23. To monitor the Company's risk management and internal control systems and review the effectiveness and the processes for assessing such systems;



### Internal Audit

- 8.24. To approve the appointment and removal of any head of the Group internal audit function as appropriate and as necessary;
- 8.25. To carry out an annual assessment of the effectiveness of the Group's internal audit function and as part of this assessment:
  - meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
  - review and assess the annual internal audit work plan;
  - receive a report on the results of the internal auditor's work;
  - determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business; and
  - review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 8.26. To consider and approve the role and mandate of the Group internal audit function, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation;
- 8.27. To ensure internal audit has unrestricted scope, the necessary resources and appropriate access to information to enable it to perform its function effectively, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan, and ensure that the internal audit function is equipped to perform in accordance with relevant professional standards for internal auditors;
- 8.28. To review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, receive regular reports on work carried out and review progress against the plan;
- 8.29. To review the internal financial and non-financial control reviews performed by the Group internal audit function;
- 8.30. To review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 8.31. To review the results of the annual self-assessment performed by each business;
- 8.32. To review and monitor management's responsiveness to the findings and recommendations of the Group internal audit function;
- 8.33. To review the company's procedures for detecting fraud;
- 8.34. To review and approve statements to be included in the Annual Report concerning internal controls and risk management, including the assessment of principal risks and emerging risks and the viability statement;
- 8.35. To monitor and review the role and effectiveness of the internal audit function in the context of the overall risk management system and the work of compliance, finance and the external auditor;
- 8.36. To ensure the internal auditor has direct access to the Chairman of the Board and to the Chairman of the Committee, providing independence from the executive and accountability to the Committee and to 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;
- 8.37. To consider whether an independent, third party review of processes is appropriate;

### Other Matters

- 8.38. 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; and
- 8.39. 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



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enable the Board, Committee and individual Directors to discharge their duty to make proper disclosure to the external auditors of relevant audit information.

## 9. Reporting Procedures

- 9.1. 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.
- 9.2. 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.
- 9.3. The Company Secretary shall circulate the minutes of meetings of the Committee to all members of the Board.
- 9.4. 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.
- 9.5. 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; and
  - any other issues on which the Board has requested the Committee's opinion.
- 9.6. The Committee shall compile a report on its activities to be included in the Annual Report. The report should describe the work of the Committee, including:
  - the significant issues that the Committee considered in relation to the financial statements and how these issues were addressed;
  - an explanation of how the Committee 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 advance notice of any retendering plans; and
  - an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements set out in the Code.
- 9.7. In compiling the reports referred to above, 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 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.
- 9.8. The terms of reference of the Committee, including its role and the authority delegated to it by the Board, shall be made available on the Company's website.



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## 10. Other Matters

The Committee shall:

- 10.1. Have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for advice and assistance as required;
- 10.2. Be provided with appropriate and timely training both in the form of an induction programme and on an ongoing basis;
- 10.3. Give due consideration to all relevant laws and regulations, the provisions of the Code and published guidance, the requirements of the FCA's Listing Rules, Prospectus Regulation Rules and Disclosure Guidance and Transparency Rules and any other applicable rules, as appropriate;
- 10.4. Be responsible for oversight of the coordination of the internal and external auditors;
- 10.5. Oversee any investigation of activities which are within its terms of reference;
- 10.6. Work and liaise as necessary with all other Board committees ensuring interaction between the Board Committees and the Board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different Board Committees;
- 10.7. Ensure that a periodic evaluation of the Committee's performance is carried out; and
- 10.8. 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 for approval.

**Approved by the Board of Directors of De La Rue plc in June 2020**