

## 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. **Membership and Quorum**
  - 2.1 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. The Committee shall consist of not less than three members. A quorum shall be two members;
  - 2.2 The membership of the Committee shall be reviewed on an annual basis by the Nomination Committee;
  - 2.3 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;
  - 2.4 The Chairman of the Committee shall be appointed by the Board.
3. **Attendance at Meetings**
  - 3.1 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;
  - 3.2 The Company Secretary or nominee of the Committee shall act as secretary of the Committee.
4. **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.
5. **Purpose**

The Committee is responsible for ensuring the adequacy of the systems and standards of internal financial control within the Group including the financial reporting. It shall also monitor the integrity of the financial statements of the Company and will consider and recommend to the Board for subsequent issue, the annual and interim financial statements, preliminary results' announcements and any other formal announcement relating to the financial performance of the Company.

## 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:

- 7.1 To consider and make recommendations to the Board on the appointment of the external auditor and any questions of resignation or dismissal;
- 7.2 To consider whether the external audit should be put out to tender at least every 10 years to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor and in respect of such tender oversee the selection process and if an auditor resigns;
- 7.3 To consider if an auditor resigns the issues leading to this and decide whether any action is required;
- 7.4 To approve the external auditor's 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;
- 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 develop and maintain policy on the engagement of the external auditor to supply non-audited services and to consider the appropriateness of such non-audit services reviewing their nature and extent to ensure the external auditors' independence, objectivity and effectiveness;
- 7.8 To assess annually the external auditor's independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of non-audit services;
- 7.9 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);
- 7.10 To agree with the Board a policy on the employment of former employees of the external auditor, then monitor the implementation of this policy;
- 7.11 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;
- 7.12 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;
- 7.13 To review the external auditor's management letter and management's response;
- 7.14 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)
- 7.15 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;
- 7.16 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);
- 7.17 To monitor and review the effectiveness of internal financial controls and internal control and risk management systems and the effectiveness of the Group's internal audit function and in particular to:
- approve the appointment and removal of the head of the Group internal audit function
  - 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
- 7.18 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;
- 7.19 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;

7.20 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
  - any significant issues it considered in relation to the financial statement
  - effectiveness of the external audit process and how this was assessed and an explanation on 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.

**Approved by the Board of Directors of De La Rue plc on 31 March 2016**