

**AUDIT COMMITTEE  
TERMS OF REFERENCE**

**1. Membership**

- 1.1. The Committee shall comprise at least three members and, where possible, one member of the Remuneration Committee. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee in consultation with the Chairman of the Audit Committee.
- 1.2. All members of the Committee shall be independent Non-Executive Directors, at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing. The Chairman of the Board shall not be a member of the Committee.
- 1.3. Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chief Financial Officer, the Group Head of Audit and external audit lead partner will be invited to attend all or part of any meeting on a regular basis and non-members may be invited to attend all or part of any meeting as and when appropriate as and when appropriate.
- 1.4. The Board shall appoint the Committee Chairman. In the absence of the Committee Chairman the remaining members present shall elect one of themselves to chair the meeting.

**2. Secretary**

The Company Secretary or their 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.

**3. Quorum**

The quorum necessary for the transaction of business shall be two members.

**4. Frequency of Meetings**

- 4.1. The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle, and otherwise as required.
- 4.2. Outside of the formal meeting programme, the Committee Chairman and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in the Company's governance, including the Board Chairman, the Group Chief Executive, the Chief Financial Officer, the external audit lead partner and the Group Head of Audit.

**5. Notice of Meetings**

- 5.1. Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any of its members or at the request of external or internal auditor if they consider it necessary.

- 5.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members at the same time.
- 5.3 Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

## **6. Minutes of Meetings**

- 6.1. The Secretary shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2. Draft minutes of Committee meetings shall be agreed with the Committee Chairman and then circulated promptly to all members of the Committee unless it would be inappropriate to do so in the opinion of the Committee Chairman.

## **7. Annual General Meeting**

The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder questions.

## **8. Duties**

The Committee should have oversight of the Group as a whole and, unless required otherwise by regulation, carry out the duties below for the parent Company, major subsidiary undertakings and the Group as a whole. .

### **8.1. Financial Reporting**

- 8.1.1. The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports, interim management statements and preliminary announcements and any other formal statements relating to its financial performance, and review and report to the Board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it be the auditor.
- 8.1.2. The Committee shall review and challenge where necessary;
- 8.1.2.1 the application of any significant accounting policies and any changes to them ;
- 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
- 8.1.2.3 whether the Company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the views of the external auditor;
- 8.1.2.4 all material information presented with the financial statements, including the strategic report and the corporate governance statement relating to the audit and to risk management.

8.1.3 The Committee shall 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 of Disclosure Guidance and Transparency Rules sourcebook.

8.1.4 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.

## **8.2 Narrative reporting**

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, and whether it informs the Board's statement in the annual report on these matters that is required under the UK Corporate Governance Code.

## **8.3 Internal Controls and Risk Management Systems**

The Committee shall:

8.3.1 keep under review the Company's internal financial controls systems that identify, assess, manage and monitor financial risks, and internal control and risk management systems; and

8.3.2 review and approve the statements to be included in the Annual Report and Accounts concerning internal control, risk management and the viability statement.

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

The Committee shall:

8.4.1 review the adequacy and security of the Company's arrangements for its employees and contractors 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;

8.4.2 review the Company's procedures for detecting fraud; and

8.4.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## **8.5 Internal Audit**

The Committee shall:

8.5.1 approve the appointment and removal of the head of the internal audit;

- 8.5.2 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring that it is appropriate for the current needs of the organisation;
- 8.5.3. review and approve the annual internal audit plan to ensure that it is aligned to the key risks of the business and receive regular reports on work carried out;
- 8.5.4 ensure the internal audit function has unrestricted scope, the necessary resources and access to fulfil its mandate, 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 professional standards for internal auditors.
- 8.5.5. ensure the internal auditor has direct access to the Board Chairman and the Committee Chairman, providing independence from the executive and accountability to the committee;
- 8.5.6. carry out an assessment of the effectiveness of the internal audit function, and as part of this assessment:
  - 8.5.6.1 meet with the head of internal audit without the presence of management to discuss the effectiveness of the function;
  - 8.5.6.2 review and assess the annual audit work plan;
  - 8.5.6.3 receive a report on the results of the internal auditor's work;
  - 8.5.6.4 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business, and
  - 8.5.6.5 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function;
- 8.5.7. monitor and assess the role and effectiveness of the internal audit function in the overall context of the Company's risk management system and the work of compliance, finance and the external auditor, and
- 8.5.8 consider whether an independent, third party review of processes is appropriate.

## **8.6. External Audit**

The Committee shall:

- 8.6.1. 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.

- 8.6.2 develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;
- 8.6.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 8.6.4. oversee the relationship with the external auditor. In this context the Committee shall:
  - 8.6.4.1. approve their remuneration, whether fees for audit or non-audit services and ensure that the level of fees is appropriate to enable an effective and high quality audit to be conducted; and
  - 8.6.4.2. approve of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
- 8.6.5 assessing annually the external auditor's independence and objectivity taking into account relevant UK 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;
- 8.6.6. satisfy itself that there are no relationships between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
- 8.6.7. agree with the Board a policy on the employment of former employees of the Company's auditor, taking into account the Ethical Standard and legal requirements and monitor the implementation of this policy;
- 8.6.8. monitor the auditor's process for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partners and staff,;
- 8.6.9 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;
- 8.6.10. assess annually the qualifications, expertise and resources, and independence 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;
- 8.6.11 seek to ensure co-ordination with activities of the internal audit function;
- 8.6.12 evaluate the risks to the quality and effectiveness of the financial reporting process in light of the external auditor's communications with the Committee;

- 8.6.13 develop and recommend to the Board the Company's formal policy on the provision of non-audit services by the auditor, including 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:
  - 8.6.13.1. threats to independence and objectivity of the external auditor and any safeguards in place;
  - 8.6.13.2. the nature of non-audit services;
  - 8.6.13.3. whether the external audit firm is the most suitable supplier of the non-audit service;
  - 8.6.13.4. the fees for the non-audit services, both individually and in aggregate, relative to the non-audit fee; and
  - 8.6.13.5. the criteria governing compensation;
- 8.6.14 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 the external auditor, without management being present, to discuss their remit and any issues arising from the audit;
- 8.6.15. discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan ensuring that it is consistent with the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team;;
- 8.6.16. review the findings of the audit with the external auditor. This shall include but not be limited to, the following;
  - 8.6.16.1. a discussion of any major issues which arose during the audit,
  - 8.6.16.2. the auditor's explanation of how the risks to audit quality were addressed;
  - 8.6.16.3. key accounting and audit judgements, and
  - 8.6.16.4. the auditor's view of their interactions with senior management; and
  - 8.6.16.5. levels of errors identified during the audit.
- 8.6.17. review any representation letter(s) requested by the external auditor before they are signed by management;
- 8.6.18. review the management letter and management's response to the auditor's findings and recommendations; and

8.6.19. 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.

## **9 Reporting Responsibilities**

9.1. The Committee Chairman shall report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities. This report shall include:

9.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed:

9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.6.10) the approach taken to the appointment or reappointment of the external auditor, length of tenure of the audit firm, when a tender was last conducted and advance notice of any re-tendering plans; and

9.1.3 any other issues on which the Board has requested the Committee's opinion.

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

9.3. The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report. The report should include an explanation of how the Committee has addressed the effectiveness of the external audit process; the significant issues the Committee considered in relation to the financial statements and how these were addressed, having regard to matters communicated to it by the auditor; and all other information required under the UK Corporate Governance Code.

9.4 In compiling the reports referred to in 9.1 and 9.3, the Committee should exercise judgment 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-reference to that information.

## **10 Other**

The Committee shall:

10.1. have access to sufficient resources in order to carry out its duties, including access to the Company Secretariat for assistance as required;

10.2 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;

- 10.3. give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules, Prospectus and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 10.4. be responsible for co-ordination of the internal and external auditor;
- 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, taking particular account of the impact of risk management and internal controls being delegated to different Committees; and
- 10.7. arrange for periodic reviews of its own performance, 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.

## **11. Authority**

The Committee is authorised to:

- 11.1. seek any information it requires from any employee of the Company/Group in order to perform its duties;
- 11.2. obtain, at the Company's expense, independent legal, accounting or other professional advice on any matter it believes necessary to do so;
- 11.3. call any employee to be questioned at a meeting of the Committee as and when required; and
- 11.4. to have the right to publish in the Company's Annual Report details of any issues that cannot be resolved between the Committee and the Board.

*References to 'the Committee' shall mean the Audit Committee.*

*References to 'the Board' shall mean the Board of Directors.*

*References to the 'Company' or 'Group' shall mean Inchcape plc or the Inchcape Group.*