



Terms of reference for the Audit Committee

The Audit Committee of the Board of Directors has been established with delegated powers in accordance with Article 92 of the Articles of Association.

1. Membership

- 1.1 The Audit Committee ("the Committee") shall comprise at least three members. The Committee shall be appointed by the Board on the recommendation of the Nominations Committee in consultation with the Chairman of the Audit Committee. The Board shall appoint the Committee Chairman who shall be an independent non-executive director. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 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 ideally with a professional qualification from one of the professional accountancy bodies. The Chairman of the Board shall not be a member of the Committee.
- 1.3 Only members of the Committee shall have the right to attend Committee meetings. However, the external auditor, Chairman of the Board, other directors and representatives from internal audit, risk management and finance functions shall be invited to attend all or part of any meeting as and when appropriate and necessary.
- 1.4 There should be at least one meeting a year, or part thereof, where the external and internal auditors attend without management present.

2. Secretary

The Company Secretary or their nominee shall act as the Secretary of the Committee.

3. Quorum

A quorum shall be two members.

4. Notice of meetings

- 4.1 Meetings of the Committee shall be called by the Secretary of the Committee at the request of any of its members or at the request of the external or internal auditor if they consider it necessary.
- 4.2 In general, 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 and any other person required to attend, no fewer than five working days prior to the date of the meeting. Supporting papers shall be sent to members and to other attendees, as appropriate, at the same time.

5. Minutes of meetings

Minutes of Committee meetings shall be circulated to all members of the Committee and be available to all other members of the Board unless it would be inappropriate to do so.

6. Frequency of meetings

Meetings shall be held not less than three times a year, and where appropriate should coincide with key dates in the Group's financial reporting and audit cycle and otherwise as required.

7. Duties

7.1 Financial reporting

The Committee shall:

- 7.1.1 monitor the integrity of the financial statements of the Group, including its annual and half-yearly reports, and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to matters communicated to it by the auditor.
- 7.1.2 review and challenge where necessary:
 - 7.1.2.1 the consistency of, and any changes to, significant accounting policies both on a year on year basis and across the Group;
 - 7.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible;
 - 7.1.2.3 whether the appropriate accounting standards have been followed and whether appropriate estimates and judgements have been made, taking into account the views of the external auditor; and
 - 7.1.2.4 the clarity and completeness of disclosure in the Group's financial reports and the context in which statements are made.

Where the Committee is not satisfied with any aspect of the proposed financial reporting by the Group, it shall report its views to the Board.

7.2 Narrative reporting

Where requested by the Board, the Committee shall 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 Group's performance, business model and strategy.

7.3 Internal financial controls, risk management, viability and fraud

The Committee shall:

- 7.3.1 review the adequacy and effectiveness of the Group's internal financial controls and review and approve the statements to be included in the annual report concerning internal financial controls; and
- 7.3.2 review the Group's procedures for detecting fraud.
- 7.3.3 review the adequacy and effectiveness of the Group's risk management processes and approve the statements to be included in the annual report concerning the risk management processes; and
- 7.3.4 keep under review the Group's overall risk assessment processes including the processes being used to determine the Group's overall risk appetite, tolerance and strategy, and advise the Board on the appropriateness of those processes
- 7.3.5 oversee the production of the viability statement required under the UK Corporate Governance Code, including a review of the stress-testing and other processes management has applied, and provide advice to the Board on the overall appropriateness of the viability statement
- 7.3.6 ensure the risk management function has adequate resources and appropriate access to information to enable it to perform its function effectively. Ensure the Head of Risk Management has direct access to the Chairman of the Board and the Chairman of the Audit Committee.

7.4 Internal audit

The Committee shall:

- 7.4.1 acting by the Committee Chairman, approve the appointment or termination of appointment of the head of internal audit and ensure the internal auditor has direct access to the Chairman of the Board and to the Committee Chairman, and is accountable to the Committee;

- 7.4.2 review and approve the remit of the internal audit function and ensure the function has the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors;
- 7.4.3 review and assess the annual internal audit work plan and receive a report on the results of the internal auditor's work on a periodic basis;
- 7.4.4 review and monitor management's responsiveness to the internal auditor's findings and recommendations; and
- 7.4.5 monitor and review the effectiveness of the Group's internal audit function.

7.6 External audit

The Committee shall:

- 7.6.1 consider and make recommendations to the Board, to be put to shareholders for approval at the Annual General Meeting (AGM), in relation to the appointment, re-appointment and removal of the external auditor;
- 7.6.2 ensure that the audit services contract is put out to tender at least as regularly as required under the UK Corporate Governance Code (the Code) or any other applicable law or regulation, to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
- 7.6.3 if an auditor resigns, investigate the issues leading to this and decide whether any action is required;
- 7.6.4 oversee the relationship with the external auditor including (but not limited to):
 - 7.6.4.1 recommendations on their remuneration, and that the level of fees is appropriate to enable an effective and high quality audit to be conducted;
 - 7.6.4.2 approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 7.6.4.3 assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services;
 - 7.6.4.4 monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Group compared to the overall fee income of the firm, office and partner and other related requirements;
 - 7.6.4.5 assessing annually the qualifications, expertise and resources of the auditor and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
 - 7.6.4.6 seeking to ensure co-ordination with the activities of the internal audit function;
 - 7.6.4.7 evaluating the risks to the quality and effectiveness of the financial reporting process and consideration of the need to include the risk of the withdrawal of their auditor from the market in that evaluation; and
 - 7.6.4.8 to review the Group's policy regarding the hiring of senior audit firm personnel.
- 7.6.5 review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement; and
- 7.6.6 review the findings of the audit with the external auditor. This shall include, but not be limited to, a discussion of any major issues which arose during the audit; key accounting and audit judgements; levels of errors identified during the audit; and the effectiveness of the audit process.

The Committee shall also:

- 7.6.7 review any representation letter(s) requested by the external auditor before they are signed by management;
- 7.6.8 review the management letter and management's response to the auditor's findings and recommendations; and

- 7.6.9 develop and implement a policy on the supply of non-audit services.

8. Authority

The Committee is authorised by the Board to:

- 8.1 seek any information that it requires from any employee of the company in order to perform its duties;
- 8.2 call any employee to be questioned at a meeting of the Committee as and when required;
- 8.3 obtain at the Company's expense, independent legal, accounting or other professional advice, on any matter it believes it necessary to do so; and
- 8.4 publish in the Group's annual report, details of any issues that cannot be resolved between the Committee and the Board.

9. Reporting responsibilities

- 9.1 The Committee Chairman shall report formally to the Board on its proceedings after each meeting.
- 9.2 The Committee shall compile a report on its activities to be included in the Group'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 that the Committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the Code;
- 9.3 In compiling the report referred to in 9.2, 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 Group is a going concern. The report to shareholders need not repeat information disclosed elsewhere in the annual report, but could provide cross-references to that information.
- 9.4 The Committee Chairman shall attend the AGM and shall answer questions on the Committee's activities and their duties.

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 Secretary 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 Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable rules, as appropriate;
- 10.4 oversee any investigation of activities which are within its Terms of Reference;
- 10.5 arrange for periodic reviews of its own performance and its constitution to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board
- 10.6 Review these Terms of Reference every two years and recommend any changes it considers necessary to the Board.

As approved by the Meggitt PLC Board of Directors on 28 July 2016.