

### Constitution and Authority

1. The Committee is established as a committee of the Board pursuant to the Articles of Association of the Company and in accordance with the principles set out in The UK Corporate Governance Code published by the Financial Reporting Council (the Code).
2. The Committee is authorised to undertake any activity within these terms of reference and to seek any information it properly requires in order to perform its duties from any employee or director of the Company or any of its subsidiary companies (together the “Group”). All employees are directed to co-operate with any request made by the Committee.
3. The Committee is authorised by the Board to obtain, at the Company’s expense, such internal or external independent professional advice as the Committee considers appropriate. An appropriate budget is set aside each financial year for such purpose.
4. These terms of reference of the Committee are authorised by the Board and subject to amendment only by the Board.

### Purpose

5. To provide a focus for the duties of the Board as specified below and also to provide a clear channel of communication between the external auditors of the Company and the Board.
6. To provide the Board with objective advice and assurance as to the effective operation of:
  - a. the internal control environment within the Group including compliance with legal and regulatory requirements for corporate reporting and carrying out its finance function;
  - b. risk management; and
  - c. satisfactory implementation of decisions taken by the Board in respect of those matters within the remit of the Committee.

### Membership

7. The members of the Committee and its Chairman shall be appointed by the Board based on the recommendation of the Nomination Committee and in consultation with the Audit Committee chairman, where the chairman’s appointment is not being considered. All members of the Committee shall be independent Non-executive Directors of the Company. The Committee shall consist of not less than three members. At least one member of the Committee shall have significant, recent and relevant financial experience ideally with a professional qualification from one of the professional accountancy bodies. The Committee as a whole should have competence relevant to the sector in which the Company operates. The Chairman of the Board shall not be a member of the Committee or its Chairman.
8. Committee members will normally serve for a period of up to three years, extendable by up to two further periods of three years, subject to the relevant person continuing to meet the criteria for membership of the Committee.

### Meetings

9. Meetings shall be held not less than three times in each financial reporting year and at such other times as the Chairman of the Committee or the external auditors or internal auditors (if appointed) shall require. Outside of the formal meeting programme, the Committee Chairman will maintain a dialogue with key individuals involved in the Company’s governance, including the Board Chairman, Chief Executive, Chief Financial Officer, the external audit lead partner and head of internal audit (if appointed).

10. No one other than the Committee members shall be entitled to attend Committee meetings. The Chairman of the Board, other Non-executive Directors, Chief Executive Officer, Chief Financial Officer, Head of Internal Audit (if appointed), representatives of the external auditors or other professional advisors or other persons may attend meetings at the invitation of the Committee. It is expected that the Chief Financial Officer and the external audit lead partner will attend regularly. There should be at least one meeting a year, or part thereof, where the Committee meets the external and internal auditors (if any) without Executive Directors present. This need not be the same meeting.
11. Each member of the Committee shall disclose to the Committee:
- any personal financial interest (other than as a shareholder of the Company) in any matter to be decided by the Committee; or
  - any potential conflict of interest, for example, arising from a cross-directorship or other activity or appointment.
- Any such member disclosing an interest or conflict will abstain from voting on resolutions of the Committee in relation to which such interest or conflict exists and from participating in the discussions concerning such resolutions and (if so required by the Board or Committee) will resign from the Committee with immediate effect.
12. Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members. Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda and any supporting papers, shall be forwarded to each Committee member and any other person required to attend, no later than five (5) days before the date of the meeting.
13. In the absence of the Chairman of the Committee or any appointed deputy, the remaining members present shall elect one of their number to chair the relevant meeting. A quorum shall be two members. Each member of the Committee shall have one vote which may be cast on matters considered at the meeting. Votes can only be cast by members attending a meeting of the Committee. Save where he/she has a personal interest, the Committee Chairman will have a casting vote.
14. The Company Secretary or his or her nominee shall be secretary of the Committee. The Committee shall also have access to the services of the Company Secretariat on all Audit Committee matters.

### Duties

The duties of the Committee in respect of the parent company, major subsidiary undertakings and the Group as a whole shall be:

15. Review of financial statements and internal controls

#### Narrative reporting

- where requested by the Board, 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 position and performance, business model and strategy.

#### Financial reporting

- monitor the integrity of the financial statements of the Company, including its annual and interim reports, operating and financial review, preliminary announcements and related formal statements. To review, and challenge where necessary, the actions and judgements of management and report to the Board on significant financial reporting issues and judgements which they contain, having regard to matters communicated to it by the auditor. In particular, the Committee shall review and challenge where necessary:
  - the consistency of critical accounting policies and practices, both on a year on year basis and across the Group, and any changes to them;

- II. decisions requiring a significant element of judgement;
- III. the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed and the methods used to account for significant or unusual transactions;
- IV. the clarity and completeness of disclosure in the Company’s financial reports and the context in which statements are made;
- V. significant adjustments resulting from the audit;
- VI. the going concern assumption;
- VII. compliance with appropriate accounting standards and whether appropriate estimates and judgements have been made, considering the views of the external auditor;
- VIII. compliance with stock exchange and other legal requirements;
- IX. all material information presented with the financial statements, such as the business review and the corporate governance statements relating to the audit and to risk management; and
- X. reviewing the Company’s statement to be included in the Annual Report on internal control and risk management;

### Internal controls and risk management systems

- c. (i) monitor the adequacy and effectiveness of the Company’s internal financial controls and, unless expressly addressed by a separate Board risk committee composed of independent Non-executive Directors, or by the Board itself, at least annually, carry out a review of the effectiveness of the Company’s internal control and risk management systems; and (ii) review and approve the statements to be included in the annual report concerning internal controls and risk management; and
- d. advise the Board at regular intervals and to consider other topics, as defined by the Board. 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

### 16. Appointment, resignation and remuneration of external auditors

- a. consider, and make recommendations to the Board (to be put to shareholders for approval at the Annual General Meeting) on the appointment, reappointment and removal of the Company's external auditor. The Committee should have primary responsibility for making such a recommendation;
- b. approve the terms of engagement and the remuneration to be paid to the external auditor in respect of audit services provided and assess whether the level of fees is appropriate to enable an effective and high quality audit to be conducted (and to keep the terms of engagement and auditor fees under review in light of any changes in circumstances);
- c. assess the qualification, knowledge and resources, effectiveness and independence of the external auditors annually;
- d. devise procedures to help ensure the independence and objectivity of the external auditor annually, taking into consideration relevant professional and regulatory requirements and all relationships between the group and the external auditor;
- e. seek reassurance that the auditors and their staff have no family, financial, employment, investment or business relationship with the Company (other than in the normal course of business);
- f. seek from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff;

- g. monitor the external audit firm’s compliance with applicable ethical and professional guidance relating to the rotation of audit partners, the level of fees that the Company pays in proportion to the overall fee income of the firm, office and partner and other related regulatory requirements;
- h. agree with the Board and monitor the Company’s policy for the employment of former senior employees of the external auditor where such employees have at any time been involved in the audit of the Company and/or its subsidiaries;
- i. develop and recommend to the Board the Company’s policy in relation to the provision of non-audit services by the auditor, taking into account relevant ethical guidance, and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken. Also to help ensure that the provision of such services does not impair the external auditor’s independence or objectivity and to keep such policy under review. The policy shall specify the types of non-audit work: from which the external auditors are excluded; for which the external auditors can be engaged without referral to the audit committee; and for which a case-by-case decision is necessary;
- j. ensure that at least once every ten years the audit services contract is put out to tender 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 access as is necessary to information and individuals during the duration of the tendering process; and
- k. if the external auditor resigns, investigate the circumstances of the resignation and consider whether any action is required.

### 17. Scope and findings of external audit

- a. discuss with the external auditor, before each audit commences, the nature and scope of the audit and following its conclusion, the findings at the reporting stage;
- b. meet the external auditor at least once a year, without executive management being present, to discuss their remit and any issues arising from the audits;
- c. review with the external auditors, the findings of their work, including, any major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved; key accounting and audit judgements; levels of errors identified during the audit, obtaining explanations from management and, where necessary the external auditors, as to why certain errors might remain unadjusted;
- d. ensure the annual audit plan is consistent with the scope of the audit engagement;
- e. review the audit representation letters before signature by the Board and give particular consideration to matters where representation has been requested that relate to non-standard issues;

### 18. Effectiveness of external audit to assess, at the end of the audit cycle, the effectiveness of the audit process by:

- a. reviewing whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;
- b. consideration of the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committee, and in their commentary, where appropriate, on the systems of internal control;
- c. obtaining feedback about the conduct of the audit from key people involved;
- d. reviewing and monitoring the content of the external auditor’s management letter, in order to assess whether it is based on a good understanding of the Company’s business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon; and

- e. ensure coordination with the activities of the internal audit function.

### 19. Internal Audit

- a. consider annually the appropriateness of the structure and composition of the existing internal audit function and review the internal audit plans and programmes and help ensure that the internal audit function or review 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 standards;
- b. to meet the Head of Internal Audit (if appointed) at least once a year, without management being present, to discuss their remit and any issues arising from internal audits carried out;
- c. to help ensure that the appointee has direct access to the Board Chairman and to the Committee and is accountable to the Committee;
- d. to receive a report on the results of the work on a periodic basis and review promptly all reports on the Company from the internal auditors (if appointed);
- e. to review and monitor management’s responsiveness to the findings and recommendations of the internal auditor (if appointed);
- f. to monitor and assess the role and effectiveness of the function in the overall context of the Company’s risk management system;
- g. to appoint or dismiss the reviewer or Head of Internal Audit;
- h. to review the Company’s procedures for whistle blowing and help ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters and ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action;
- i. review the Company’s procedures for detecting fraud;
- j. review the Company’s systems and control for the prevention of bribery and receive reports of non-compliance where applicable; and
- k. to review management’s and the internal auditor’s reports on the effectiveness of the systems for internal financial control, financial reporting and risk management.

In carrying out its duties under these terms of reference, the Committee should have regard to developments in best practice, and formal guidance on governance matters for publicly listed companies.

### Reporting responsibilities and Communication with Shareholders

20. The Committee Chairman shall report to the Board on its proceedings after each meeting, and at any time and in such manner that the Board may require, on all matters within its duties and responsibilities and shall also report to the Board on how it has discharged its responsibilities.

This report shall include:

- a. the significant issues that it considered in relation to the financial statements (required under paragraph 15.b) and how these were addressed;
- b. its assessment of the effectiveness of the external audit process (required under paragraph 18) and its recommendation on the appointment or reappointment of the external auditor; and
- c. any other issues on which the Board has requested the Committee’s opinion.

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

22. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including the names of those present and in attendance. The Secretary shall circulate the draft minutes of meetings to all members of the Committee. Once approved, minutes should be circulated to all members of the Board unless it would be inappropriate to do so in the opinion of the Committee Chairman, and the Chairman of the Committee shall attend the Board meeting at which the accounts are approved.
23. The Committee Chairman shall attend the Annual General Meeting and shall answer questions, through the Chairman of the Board, on the Committee’s activities and its responsibilities.
24. The proceedings of the Committee and reports made by the internal auditor and others for or on the instruction of the Committee are confidential to the Company and to the internal and external auditors, unless otherwise authorised by the Committee and the Board.
25. The Committee shall compile a report on its activities to be included in the Company’s annual report. Similarly to the reports the Committee makes to the Board, the report should include:
  - a. the significant issues that it considered in relation to the financial statements, and how these issues were addressed;
  - b. an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted;
  - c. if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded; and
  - d. all other information requirements as set out in the Code.

The Committee has the right to publish in the Company’s annual report, details of any issues that cannot be resolved between the Committee and the Board.

26. In compiling the reports referred to in paragraphs 20 and 25 the Committee will exercise judgement in deciding which of the issues it considers are significant but will include at least those matters that have informed the Board’s assessment of whether it considers it appropriate to adopt the going concern basis of accounting in preparing the financial statements and identify any material uncertainties to the Company’s ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. The report to shareholders will not necessarily include information disclosed elsewhere in the annual report and accounts, but may cross-reference that information.
27. The Committee shall work and liaise with all other Board Committees.

### Performance Review

28. The Committee shall, at least annually, review its constitution, terms of reference and its own effectiveness and recommend any necessary changes to the Board.
29. The Committee shall 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.

### Resolution of disagreements

30. Where disagreements between the Committee and the Board cannot be resolved, the Committee shall report the issue to the shareholders as part of the report on its activities in the Company’s Annual Report. If the Board does not accept the Committee’s recommendation regarding the appointment, reappointment or removal of the external auditors, the Committee shall include a statement explaining its recommendation and reasons why the Board has taken a different stance in the Annual Report.

# BTG plc

Terms of Reference of the Audit  
Committee (“Committee”) of the Board of  
Directors (“Board”) of BTG plc (“Company”)



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Approved 22 March 2017