

FirstGroup plc
Audit Committee – Terms of Reference

Definitions

References to “the Committee” shall mean the Audit Committee

References to “the Board” shall mean the board of directors of FirstGroup plc

References to “the Chairman of the Committee” shall mean the Chairman of the Audit Committee

References to “the Chairman of the Company” shall mean the Chairman of FirstGroup plc.

1. Membership and attendance

1.1 The Committee shall be appointed by the Board, on the recommendation of the Nomination Committee, and shall comprise a Chairman and at least two other members.

1.2 All members of the Committee shall be independent non-executive directors.

1.3 At least one member of the Committee (preferably the Chairman) should have recent relevant financial experience.

1.4 The Board, on the recommendation of the Nomination Committee, shall appoint the Chairman of the Committee, 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 their number present to chair the meeting.

1.5 The Committee may ask the Chief Executive, Finance Director and any relevant senior management to attend meetings either regularly or by invitation, but they shall have no right of attendance.

1.6 The Committee shall ask a representative of the external auditors and the head of internal audit to attend meetings, as appropriate.

1.7 The membership of the Committee, and the identity of any members of the Committee who have sufficient and recent financial experience, as defined by the UK Corporate Governance Code guidance to enable the Committee to discharge its functions effectively shall be disclosed in the Annual Report of the Company. A description of the Committee’s duties and activities shall also be disclosed in the Annual Report.

2. Secretary

The Company Secretary or his/her nominee shall act as the Secretary of the Committee.

3. Quorum

The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

4. Frequency of Meetings

4.1 The Committee shall meet not less than four times a year and at such other times as the Chairman of the Committee shall require.

- 4.2 Meetings will be arranged to tie in with the publication of the Company's financial statements, allowing at least three working days prior to a Board Meeting where accounts or financial statements are to be approved.
- 4.3 The Chairman of the Company and the Chairman of the Committee may each request that a meeting should be held at any time. Any other member of the Committee, the Chief Executive, the Finance Director, the external auditors and the head of internal audit may each request the Chairman of the Committee to convene a meeting at any time.

5. Notice of Meetings

- 5.1 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of any member thereof
- 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, any other person required to attend and all other non-executive directors, no fewer than three working days prior to the date of the meeting.

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 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to the Chairman and all members of the Board and attendees as appropriate.

7. Annual General Meeting

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

8. Duties

8.1 Internal Control and Risk Assessment

The Committee shall keep under review the effectiveness of the Company's financial reporting and internal control policies and procedures for the identification, assessment and reporting of risks. The Committee shall review updates to the Group Risk Plan and its supporting Group Risk Register every six months.

8.2 Internal Audit

- 8.2.1 The Committee shall consider applications for the post of and approve the appointment of the head of the internal audit function. Any dismissal of the post holder should be considered by the Committee.
- 8.2.2 The Committee shall consider and approve the terms of reference of the internal audit function, and shall be advised of the planned programme of audits and the reason for any change or delay in the programme. The Committee shall also keep under review the resources available to the internal audit function.
- 8.2.3 The Committee shall review the management of financial matters and focus upon the freedom allowed to the internal auditors.

8.2.4 The Committee shall review promptly all reports on the Company from the internal auditors. Such reports will be prepared every three months.

8.2.5 The head of internal audit shall be given the right of direct access to the Chairman of the Committee.

8.3 External Audit

8.3.1 The Committee shall consider and make recommendations to the Board as regards the appointment and re-appointment of the Company's external auditors.

8.3.2 The Committee shall meet with the external auditors at least twice each year, once at the planning stage, where the scope of the audit will be considered, and once post audit at the reporting stage, and shall ensure that any auditors' management letters and management's responses are reviewed. Adequate time will be set aside, normally at each meeting, for private discussion with the auditors.

8.3.3 The Committee shall keep under review the relationship with external auditors including (but not limited to):

(a) the independence of the external auditors;

(b) the objectivity and effectiveness of the audit process;

(c) the development and implementation of policy for the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external auditors, 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;

(d) the consideration of audit fees which should be paid as well as any other fees which are payable to auditors in respect of non-audit activities; and

(e) discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made vis-à-vis the Company's internal auditing standards.

8.3.4 The Committee shall review the activities, findings, conclusions and recommendations of the external auditors and confirm, through discussion and by review of the annual audit letter, that there exists between the Company and the external auditors no unresolved issues of concern in relation to the Group.

8.3.5 The Committee shall periodically assess the qualifications, expertise, resources and effectiveness of the external auditors.

8.4 Financial Statements

8.4.1 The Committee shall keep under review the consistency of accounting policies both on a year to year basis and across the Company/Group.

8.4.2 The Committee shall review and challenge where necessary the Company's financial statements taking into account:

- (a) decisions requiring a major element of judgement;
- (b) the extent to which the financial statements are affected by any unusual transactions
- (c) the clarity of disclosures;
- (d) significant adjustments resulting from the audit;
- (e) the appropriateness of the going concern statement to be made by the Board;
- (f) compliance with accounting standards;
- (g) compliance with stock exchange and other legal requirements; and
- (h) reviewing the Company's statement on internal control systems prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks by the Company.

8.4.3 The Committee shall review the annual financial statements of the Company's pension funds where not reviewed by the Board as a whole.

8.5 Reporting Responsibilities

8.5.1 The Committee or its Chairman shall meet formally with the Board at least four times a year to discuss such matters as the Annual Report and the relationship with the external auditors.

8.5.2 In the light of its other duties, the Committee shall make whatever recommendations to the Board it deems appropriate and shall compile a report to shareholders to be included in the Company's Annual Report and Accounts.

8.6 Other Matters

8.6.1 The Committee shall give due consideration to the requirements of the UK Listing Authority's Listing Rules.

8.6.2 The Committee shall be responsible for co-ordination of the internal and external auditors.

8.6.3 The Committee shall oversee any investigation of activities, which are within its terms of reference and act as a court of last resort.

8.6.4 The Committee should, on a regular basis, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness.

8.6.5 The Committee should review arrangements by which employees of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters and ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

9 Authority

The Committee is authorised:

- 9.1 to seek any information it requires from any employee of the Company in order to perform its duties;
- 9.2 to obtain, at the Company's expense, outside legal or other professional advice on any matters within its terms of reference; and
- 9.3 to call any member of staff to be questioned at a meeting of the Committee as and when required.