

## **Compass Group PLC (the *Company*)**

### **Audit Committee Terms of Reference**

**Adopted by the Board on 21 September 2016**

#### **Constitution**

1. The Board resolved on 7 December 2000 to establish a committee of the Board to be known as the Audit Committee (the *Committee*).
2. The Board has resolved to amend the Terms of Reference of the Committee. These Terms of Reference replace in their entirety those adopted by the Board on 7 December 2000, 8 June 2004, 23 November 2007, 20 November 2009, 14 November 2012, 13 November 2013 and 16 September 2015. The Company shall ensure that these Terms of Reference are made generally available by means of publication on the Company's website and by making them available from the Company on request.

#### **Membership**

3. The Committee shall be appointed by the Board from time to time and shall comprise at least three members. All members of the Committee shall be independent non-executive directors of the Company and at least one shall have recent and relevant financial experience. The Committee as a whole will have competence relevant to the sector in which the Company operates.
4. 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.
5. The Committee Chairman shall be appointed from time to time by the Board and 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.
6. The Company Secretary or his/her nominee shall be the Secretary of the Committee.

#### **Attendance at meetings**

7. Only members of the Committee have the right to attend Committee meetings. Other individuals, however, such as the Chairman of the Board, Group Chief Executive, Group Finance Director or other directors, the heads of risk, compliance and internal audit and representatives from the finance function may be invited to attend all or any part of any meeting as and when appropriate.

8. The external auditor should be invited to attend meetings of the Committee on a regular basis. Where internal audit matters are discussed at a meeting, the head of internal audit should normally attend that meeting.

9. 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 and to any other person required to attend, no later than 5 working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

### **Frequency of meetings**

10. 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.

11. The Committee shall meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.

### **Minutes**

12. The Secretary shall minute the proceedings and resolutions of all Committee meetings, including recording the names of those present and in attendance and any conflict of interest which shall be ascertained by the Committee Chairman at the beginning of each meeting.

13. The Secretary shall promptly circulate the minutes of the meetings to all members of the Committee and to all other members of the Board, unless a conflict of interest exists.

### **Annual General Meeting**

14. The Committee Chairman shall attend the Annual General Meeting prepared to respond to any shareholder questions on the Committee's activities and areas of responsibility.

### **Authority**

15. The Committee is authorised by the Board to investigate any activity which falls within these terms of reference and to make whatever recommendations to the Board it deems appropriate in any area within its remit. It is authorised to seek any information it requires from any employee of the Company and of the Group and to call any employee to be questioned at a meeting of the Committee as and when required. All employees are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board to obtain, at the Company's expense, external legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

## **Duties**

16. The Committee should carry out its duties for the parent company, major subsidiary undertakings and the Group as a whole, as appropriate.

17. In carrying out its duties the Committee shall give due consideration to all applicable laws and regulations, the provisions of the UK Corporate Governance Code ('the Code') and the requirements of the UK Listing Authority's Listing Prospectus and Disclosure Guidance and Transparency Rules and any other applicable Rules as appropriate.

## **Financial Reporting**

18. The Committee shall:

- (a) monitor the integrity of, and assist the Board in ensuring that, the Company's and Group's published financial statements and any formal announcement relating to their financial performance, comply with statute and accounting standards and if necessary, submit recommendations or proposals to ensure the integrity of the financial statements;
- (b) review any significant financial reporting issues and judgments which they contain; and
- (c) review and challenge where necessary:
  - (i) the consistency of, and any changes to, accounting policies or practices both on a year on year basis and across the Company and Group;
  - (ii) the methods used to account for significant or unusual transactions where different approaches are possible;
  - (iii) major judgmental areas, significant adjustments resulting from the audit and the going concern assumptions;
  - (iv) the Company's and Group's compliance with appropriate accounting standards, taking into account the views of the external auditor;
  - (v) the clarity of disclosure in the Company's and Group's financial reports and the context in which statements are made; and
  - (vi) all material information presented with the financial statements, such as the business review and the corporate governance statement (insofar as it relates to the audit and risk management).

19. Where requested by the Board, the Committee should review (a) 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 (b) the "Viability Statement" including the assumptions on which it is based for inclusion in the annual report.

20. The Committee shall review the funding position of the Group's pension funds where not reviewed by the Board as a whole.

### **Internal Controls and Risk Management**

21. The Committee shall:

- (a) keep under review the effectiveness of the Company's and Group's internal financial controls and risk management systems (including systems and controls for the prevention of bribery) and where applicable, its internal audit function, regarding the financial reporting of the Company, without breaching the function's independence and investigate and advise on these or related matters which are referred to it or that it considers necessary; and
- (b) review the Company's statement on internal control and risk management systems to be included in the annual accounts prior to endorsement by the Board, which should include consideration of the risks associated with audit firms withdrawing from the market, tenure of the current external auditor and their independence.

### **Internal Audit**

22. The Committee shall:

- (a) monitor and review the internal audit programme in the context of the Company's/Group's overall risk management system;
- (b) approve the appointment and removal of the head of internal audit;
- (c) consider and approve the remit of internal audit, ensure co-ordination between the internal and external auditor/co-ordination of more than one audit and ensure that the internal audit function is adequately resourced to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure that the function has appropriate standing within the Company and Group and is free from management or other restrictions;
- (d) review and assess the annual internal audit plan and consider promptly the findings of internal financial/audit investigations;
- (e) review and monitor management's responsiveness to the findings and recommendations of the internal auditor; and
- (f) meet the head of internal audit at least once a year, without management being present to discuss internal audit's remit and any issues arising from the internal audits that have been carried out and shall allow the head of internal audit the right of direct access to it and to the Chairman of the Board although the Committee recognises that day to day reporting will be to the Group Finance Director.

## External Audit

23. The Committee shall:
- (a) be responsible for the procedure for the selection of the external auditor and shall consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, on the appointment and re-appointment of the external auditor or any question of their resignation or dismissal;
  - (b) 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 such access as is necessary to information and individuals during the duration of the tendering process; and ensure that the annual report contains information on the approach taken to the appointment or reappointment of the external auditor, information on the length of tenure of the external auditor, when a tender was last conducted, advance notice of any retendering plans and to the extent that any audit tenders are held, that they are held in a form that accords with regulatory requirements;
  - (c) if an auditor resigns, investigate the issues leading to this and decide whether any action is required. If the Board does not accept the Committee's recommendation it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the Committee explaining the recommendation and should set out reasons why the Board has taken a different position;
  - (d) oversee the relationship with the external auditor, including (but not limited to):
    - (i) approval of their terms of engagement and of their 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;
    - (ii) assessing annually their independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services (and shall develop and implement a policy on the supply of such non-audit services by the external auditor as required);
    - (iii) satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the Company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;
    - (iv) agreeing with the Board a policy on the employment of former employees of the Company's auditor, then monitoring the implementation of this policy;

- (v) monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the Company compared to the overall fee income of the firm, office and partner and other related requirements;
  - (vi) 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; and
  - (vii) seeking to ensure co-ordination with the activities of the internal audit function.
- (e) keep under review the scope and results of the annual audit and its cost effectiveness;
  - (f) meet regularly with the external auditor and at least once a year, including once at the planning stage before the audit and once after the audit at the reporting stage, to discuss their remit and any issues arising from the interim and final audits and any matters the external auditor may wish to discuss without executive Board members present;
  - (g) 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 effectiveness of the audit process;
  - (h) develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matters and include in its report to shareholders in paragraph 27 below, an explanation as to how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded; and
  - (i) review any representation letter(s) requested by the external auditor before they are signed by management, and review management's representation letter and management's response to the auditor's findings and recommendations.

### **Employee Concerns**

24. The Committee shall:

- (a) review the Company's arrangements for its employees 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; and
- (b) review the Company's procedures for detecting and preventing fraud and bribery.

## **Reporting Responsibilities**

25. The Committee Chairman (or any Committee member designated by the Chairman) should report formally to the Board on the proceedings of the Committee following the conclusion of each meeting on all matters within its duties and responsibilities and shall attend the AGM prepared to respond to questions raised by shareholders relating to matters within the Committee's area of responsibility.

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

27. The Committee shall compile a report to shareholders on its activities to be included in the Company's Annual Report. The members of the Committee shall be identified in this report, as well as the frequency of, and individual attendance by members at, Committee meetings. 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.

28. In compiling the reports referred to in paragraphs 25. and 27., 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 Company is a going concern.

## **Other**

29. The Committee shall consider any other topics, as determined by the Board, including a regular review of its own performance, constitution and, at least annually, its terms of reference to ensure it is operating at maximum effectiveness and shall recommend any changes that it considers necessary to the Board for approval.

30. The Committee shall oversee any investigation of activities which are within its terms of reference.

31. The Committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required, and 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.