

# ULTRA

## ULTRA ELECTRONICS HOLDINGS PLC

### Terms of Reference of the Audit Committee

(Approved December 2018)

#### **1. CONSTITUTION**

The Board has resolved to establish a Committee of the Board to be known as the Audit Committee.

#### **2. PURPOSE OF COMMITTEE**

The purpose of the Committee is to oversee the Company's and its subsidiaries (the "Group's") internal financial controls and risk management systems; to recommend the half and full year financial results to the Board; and to monitor the integrity of all formal reports and announcements relating to the Company's financial performance. In addition, the Committee shall: appoint the internal auditors, oversee the appointment of the external auditors and maintain an appropriate relationship with the internal and external auditors of the Group. The Committee shall report the findings and recommendations of the internal and external auditors to the Board.

#### **3. MEMBERSHIP**

- 3.1** 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.
- 3.2** 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.
- 3.3** Only members of the Committee have the right to attend Committee meetings. However, other individuals such as the Chairman of the Board, Chief Executive, Group Finance Director, other directors, head of the internal audit function / independent internal audit firm (the "Internal Auditor") and representatives from the finance function may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 3.4** The external auditor shall be invited to attend meetings of the Committee on a regular basis.
- 3.5** Unless determined otherwise by the Board, appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the director still meets the criteria for membership of the Committee.
- 3.6** 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.

# ULTRA

## **4. SECRETARY**

The Company Secretary or his or her nominee shall be 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.

## **5. QUORUM**

A quorum shall be two members. No meeting may be convened unless all members of the Committee have received notice of the meeting. Whenever it is practicable, meetings should be arranged so that all Committee members and the Committee Secretary can be present.

## **6. FREQUENCY OF MEETINGS**

- 6.1** Meetings shall be held at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 6.2** 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 Chief Executive, the Group Finance Director, the external lead partner and the head of internal audit / independent internal audit firm representative.

## **7. NOTICE OF MEETINGS**

- 7.1** 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 audit lead partner or Internal Auditor if they consider it necessary.
- 7.2** Unless otherwise agreed by all members of the Committee, 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 no later than five 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.
- 7.3** Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

## **8. MINUTES OF MEETINGS**

- 8.1** The Secretary shall minute the proceedings and decisions of all Committee meetings, including recording the names of those present and in attendance.
- 8.2** Draft Committee minutes shall be agreed with the Committee Chairman and then circulated promptly to all Committee members. Once approved, the minutes shall be circulated to all other Board members unless it would be inappropriate to do so in the opinion of the Committee Chairman.

## 9. ANNUAL GENERAL MEETING

The Committee Chairman should attend the annual general meeting to answer shareholder questions on the Committee's activities.

## 10. 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, as appropriate:

### 10.1 Financial Reporting

**10.1.1** The Committee shall monitor the integrity of the financial statements of the Company, including its annual report, preliminary announcements, interim management statements, Class 1 circulars and any related announcement containing financial information and any other formal announcement relating to the Company's financial performance, having regard to matters communicated to it by the Company's auditor, before submission to the Board.

**10.1.2** The Committee shall review and challenge where necessary:

- a) the consistency of, and any changes to, accounting policies both on a year on year basis and across the Company/Group;
- b) the methods used to account for significant or unusual transactions where different approaches are possible;
- c) whether the Company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- d) the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made; and
- e) all material information presented with the financial statements, such as the business review/operating and financial review, strategic report and the corporate governance statement (insofar as it relates to the audit and risk management).

**10.1.3** Where practicable, the Committee shall review statements containing financial information, where prompt reporting is required (e.g. in respect of profit warnings), prior to gaining Board approval.

**10.1.4** 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.

### 10.2 Narrative Reporting

**10.2.1** 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 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 Code.

# ULTRA

## 10.3 Internal Controls and Risk Management Systems

The Committee shall annually:

- 10.3.1** review the adequacy and effectiveness of Company's internal financial controls and internal control and risk management systems, including the appropriateness and effectiveness of the risk management framework;
- 10.3.2** review and approve the statements to be included in the annual report concerning internal controls and risk management and the viability statement;
- 10.3.3** review the overall processes that identify assess manage and monitor the business risks and the impact on the Group; and
- 10.3.4** review the overall approach to setting risk appetite, tolerance levels, risk exposure and any changes to the risk management framework.

## 10.4 Compliance, Whistleblowing and Fraud

The Committee shall annually:

- 10.4.1** review 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 ensures that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action is taken (including commissioning additional resource to investigate any instances of fraud if necessary);
- 10.4.2** review the Company's procedures for detecting fraud; and
- 10.4.3** review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance.

## 10.5 Internal Audit

The Committee shall:

- 10.5.1** monitor and review the effectiveness of the Company's Internal Auditor in the context of the Company's overall risk management system;
- 10.5.2** approve the appointment and removal of the Internal Auditor;
- 10.5.3** consider and approve the remit of the Internal Auditor and ensure it has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee shall also ensure the Internal Auditor has adequate standing and is free from management or other restrictions;
- 10.5.4** review and assess the annual internal audit plan;
- 10.5.5** review reports addressed to the Committee from the Internal Auditor;

# ULTRA

- 10.5.6** review and monitor management's responsiveness to the findings and recommendations of the Internal Auditor;
- 10.5.7** meet the Internal Auditor at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out; and
- 10.5.8** ensure the Internal Auditor has direct access to the Chairman of the Board and to the Committee Chairman, and is accountable to the Committee.
- 10.5.9** determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business

## **10.6** External Audit

The Committee shall:

- 10.6.1** consider and make recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Company's external auditor. The Committee shall oversee the selection process for a new auditor and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required;
- 10.6.2** agree the timing of putting the external audit services contract out to tender (taking account of the UK Corporate Governance Code's 2014 (the "Code") requirement of putting the external audit services contract out to tender at least every ten years) 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;
- 10.6.3** oversee the relationship with the external auditor including (but not limited to):
  - a) recommendations on their remuneration, and whether the level of fees for audit and non-audit services, is appropriate to enable a high quality audit to be conducted;
  - b) approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
  - c) assessing annually their independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard and other professional requirements and the 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;

# ULTRA

- d) 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;
- e) agreeing 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, then monitoring the implementation of this policy;
- f) monitor the auditor's processes 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 partner and staff;
- g) 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;
- h) assessing annually the qualifications, expertise and resources and independence of the auditor and the effectiveness of the audit process, which includes a report from the external auditor on their own internal quality procedures; and
- i) seeking to ensure co-ordination with activities of the Internal Auditor.
- j) evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee;
- k) 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:
  - whether the external audit firm is the most suitable supplier of the non-audit service;
  - the fees for the non-audit services, both individually and in aggregate, relative to the audit fee; and
  - the criteria governing compensation

**10.6.4** meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The Committee shall meet the external auditor at least once a year, without management being present to discuss the auditor's remit and any issues arising from the audit;

# ULTRA

- 10.6.5** discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan and ensure that it is consistent with the scope of the audit engagement having regard to the seniority, expertise and experience of the audit team;
- 10.6.6** review the findings of the audit with the external auditor. This shall include but is not limited to the following:
- a) a discussion of any major issues which arose during the audit;
  - b) the auditor's explanation of how the risks to audit quality were addressed;
  - c) any accounting and audit judgements;
  - d) the auditor's view of their interactions with senior management; and
  - e) levels of errors identified during the audit process; and
  - f) 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
- 10.6.7** review any representation letter(s) requested by the external auditor before they are signed by management;
- 10.6.8** review the management letter and management's response to the auditor's findings and recommendations; and
- 10.6.9** develop and implement a policy on the supply of non-audit services by the external auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.

## 11. REPORTING RESPONSIBILITIES

- 11.1** 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:
- 11.1.1** the significant issues that it considered in relation to the financial statements (required under paragraph 10.1.1) and how these were addressed;
  - 11.1.2** its assessment of the effectiveness of the external audit process (required under paragraph 10.6.4.g) and its recommendation on the appointment or reappointment of the external auditor; and

# ULTRA

- 11.1.3** any other issues on which the Board has requested the Committee's opinion.
- 11.2** The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 11.3** The Committee shall compile a report 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 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 and advance warning of any retendering plans; if the external auditor provides non audit services, an explanation of how the auditors objectivity and independence are safeguarded; 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.
- 11.4** In compiling the reports referred to in 11.1 and 11.3, 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 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-references to that information.

## 12. OTHER MATTERS

The Committee shall:

- 12.1** have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;
- 12.2** be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;
- 12.3** 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;
- 12.4** be responsible for co-ordination of the Internal Auditor and external auditors;
- 12.5** 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;
- 12.6** oversee any investigation of activities which are within its terms of reference; and

# ULTRA

- 12.7** arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers to the Board for approval. The Board shall also review the Committee's effectiveness annually.

## **13. AUTHORITY**

The Committee is authorised to:

- 13.1** seek any information it requires from any employee of the Company in order to perform its duties;
- 13.2** obtain, at the Company's expense, outside legal or other professional advice on any matter it believes it necessary to do so;
- 13.3** call any employee to be questioned at a meeting of the Committee as and when required; and
- 13.4** 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.