

## **Renishaw plc**

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

(approved by the Board and adopted by the Committee on 27 July 2005)

#### **1. Membership and attendance**

- 1.1 The Committee shall be appointed by the Board on the recommendation of the Remuneration and Nomination Committee and shall comprise a chairman and 2 other members.
- 1.2 All members of the Committee shall be independent non-executive directors. At least one member of the Committee should have recent relevant financial knowledge.
- 1.3 Care should be taken to minimise the risk of any conflict of interest that might be seen to give rise to an unacceptable influence.
- 1.4 The Board, on the recommendation of the Remuneration and Nomination Committee, shall appoint the chairman of the Committee who shall be an independent non-executive director. In the absence of the chairman of the Committee, the remaining members present shall select one of their number present to chair the meeting.
- 1.5 The Group Finance Director will normally attend meetings. Other Board members may also attend meetings with the agreement of the Committee.
- 1.6 A representative of the external auditors may attend all meetings. The Group Audit Manager will attend meetings of the Committee. The Committee should have at least one meeting, or part, with the external auditor without executive directors being present.

#### **2. Secretary**

The Assistant Company Secretary shall act as the secretary of the Committee.

#### **3. Quorum**

The quorum necessary for the transaction of business shall be 2. 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 twice a year and at such other times as the chairman of the Committee shall require.
- 4.2 Meetings shall be arranged at an appropriate time, consistent with the publication of the Company's financial statements, such that the Committee reviews financial matters before such statements are approved by the Board.
- 4.3 Meetings may be requested by the external or internal auditors if they consider one is necessary.

#### **5. Notice of meetings**

- 5.1 Meetings of the Committee shall be convened by the secretary of the Committee at the request of any member of the Committee.
- 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

and any other person attending the meeting no less than 3 working days before the date of the meeting.

## 6. **Minutes of meetings**

- 6.1 The secretary of the Committee shall minute the proceedings and resolutions of all meetings of the Committee, including recording the names of those present and in attendance.
- 6.2 The secretary should ascertain at the beginning of each meeting the existence of any conflicts of interest and minute them accordingly.
- 6.3 Minutes of Committee meetings shall be circulated promptly to all members of the Committee and to the other members of the Board.

## 7. **Annual General Meeting**

The chairman of the Committee shall attend the Annual General meeting to respond to any shareholder questions on the Committee's activities.

## 8. **Duties**

### 8.1 Internal control and risk assessment

- 8.1.1 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.
- 8.1.2 The Committee shall review the Company's statement on internal financial control before endorsement by the Board.

### 8.2 Internal audit

- 8.2.1 The Committee shall consider applications for the post of and approve the appointment to the role of Group Audit Manager. Any dismissal of the post holder should be considered by the Committee and in such circumstances, the minutes shall be taken by the Company Secretary.
- 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.
- 8.2.3 The Committee shall review the management of financial matters and focus upon the freedom allowed to the internal audit function, the resources available and its standing within the Company.
- 8.2.4 The Committee shall review promptly all reports on the Company from the internal auditors including the major findings of internal investigations and management's response.
- 8.2.6 The Group Audit Manager 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 and shall ensure that key partners within the appointed firm are rotated from time to time.
- 8.3.2 The Committee shall discuss with the external auditors:

- (a) the nature and scope of the audit, in particular, their approach to perceived risk areas; and
- (b) any problems and reservations arising from the interim and final audits and any matters that the external auditors may wish to discuss, including their observations on the system of internal financial control (in the absence of management where necessary).

8.3.3 The Committee shall meet with the external auditors at least twice each year, once after completion of the “hard close” external audit and once after completion of the “year end” external audit, and shall ensure that any auditor’s management letters and management’s responses (including timetable and any responsibilities assigned for remedial actions, if any) are reviewed.

8.3.4 The Committee shall keep under review the relationship with external auditors including, but not limited to:

- (a) the independence and objectivity of the external auditors;
- (b) the consideration of audit fees which should be paid as well as any other fees which are payable to auditors for non-audit activities; and
- (c) discussions with the external auditors concerning such issues as compliance with accounting standards and any proposals which the external auditors have made regarding the Company’s standards of internal auditing.

#### 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, focussing in particular on:

- (a) any changes to accounting policies and practices;
- (b) decisions requiring a major element of judgement;
- (c) the extent to which the financial statements are affected by any unusual transactions or any fluctuations in balances, ratios and statistics;
- (d) the clarity of disclosures;
- (e) significant adjustments or additional disclosures resulting from the audit;
- (f) the going concern assumption;
- (g) compliance with accounting standards; and
- (h) compliance with Stock Exchange and legal requirements.

#### 8.5 Reporting responsibilities

8.5.1 The Committee or its chairman shall meet formally with the Board at least once 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 will review the Company's procedures for detecting fraud and dealing with whistleblowing and ensure that arrangements are put in place by which staff may raise concerns about possible improprieties.
- 8.6.4 The Committee shall oversee any investigation of activities that are within its terms of reference and act as an adjudicator of last resort.
- 8.6.5 The Committee shall, on a regular basis, review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness.

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, external legal or other professional advice on any matters within its terms of reference within an agreed budget; and
- 9.3 to call any member of staff to be questioned at Committee meetings as and when required.